

City Manager's Proposed Budget Message FY 2004-2005

(Revised for Adoption)*

March 9, 2004

*Reflects changes made when adopted by
City Council on April 13, 2004

March 9, 2004

The Honorable Mayor and Members of the City Council
City Hall
Fairfax, Virginia 22030

Dear Mayor and Members of the City Council:

I am pleased to submit the adopted FY 2004-2005 budget for the City of Fairfax. The annual budget is the City's primary financial management tool, and its preparation is a multi-step process that occurs over several months.

The first step is a comprehensive review and assessment of City goals and objectives, followed by an analysis of the available means for accomplishing those goals and objectives. A proposed budget then is developed that best addresses the needs of the community within the available financial resources and according to City goals, guidelines and the financial policies adopted by the City Council. As the basis for our financial planning, these principles ensure our long-term fiscal stability.

The following budget message summarizes the budget, highlights its major components, reviews any significant changes and sets the stage for our deliberations. Our discussions regarding this budget will culminate with its planned adoption on April 13, 2004.

As always, citizen input is encouraged and a variety of opportunities for discussion will be available through a public hearing, a community outreach meeting and other means. I look forward to the budget review and consideration by the community and the Mayor and City Council.

Sincerely,

Robert L. Sisson
City Manager

Budget Message

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Executive Summary

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FY04-05 Adopted Budget Highlights*

- **Expenditures for all funds** (excluding interfund transfers and capital fund expenditures appropriated in previous years) total \$101,792,134, an increase of 7.1 percent over FY03-04
- **General Fund expenditures** are budgeted to **equal** General Fund **revenues**
- **General Fund expenditures** of \$86,568,559, an increase of 9.7 percent over FY03-04
- **General Fund revenues** of \$86,568,559, an increase of 9.7 percent over FY03-04
- **Capital Fund expenditures** for general fund supported projects of \$2,513,765, representing 2.9 percent of general fund expenditures. In addition, historic properties and open space capital projects (\$2,349,000) funded by the general fund via debt financing
- **Adopted real estate tax rate of \$.90 per \$100**, a decrease of 2 cent, which includes 3 cents for the **open space fund**
- Real estate residential **assessments** increased an average of 13.1 percent in 2004, excluding new construction (.5 percent)
- **Assessed value** of all real property increased \$392,342,400 or 11.8 percent in 2004
- **One cent on the real property tax rate** is equivalent to approximately \$388,000
- **Personal property tax rate** maintained at **\$3.29** per \$100
- **Cellular tax, cigarette tax, meals tax and BPOL rates unchanged**
- **Market adjustment of 2.4 percent for employees** totaling \$509,127, and public safety salary increases totaling \$379,258, recommended based on parity with surrounding jurisdictions
- **Water and sewer service rates increase 5 percent**
- **Water and sewer connection fees** remain unchanged
- **General Fund balance** at 12.1 percent of general fund expenditures

* *Certain terms used in this document may not be familiar to the reader. A glossary containing definitions for your assistance is included at pp. A-89 through A-95*

Economic Assumptions

The underlying economic assumptions in this budget are:

- **Increase** in overall **residential assessments** due to continuing high level of new construction as well as reassessments in existing housing
- Continued **low vacancy levels** and new retail construction resulting in **increased commercial assessments**
- **Regional economy** experiences moderate growth
- **No reduction in retail sales** in FY04-05 from currently estimated
- **No reduction in estimated personal property** revenue; stabilizing used car values and no reduction due to state actions
- **No further reduction in interest** earned on investments; current levels very low
- **State/Federal funding to remain flat**; no reduction from proposed levels
- **Stable/low unemployment**
- **Inflation rate of no more than 2.5 percent**, impacting City purchase of supplies, materials, contracts and utilities
- **No changes by state** in tax structure reducing or increasing **local revenues**
- **County contracts** for judicial, social services, fire and rescue, refuse disposal and schools to remain within projected increase of **3.7 percent** for non-school contracts and 4.3 percent increase for schools
- **Limited increase in personnel** or levels of **service**
- **No major boundary changes**

Community Profile

City Government

Date of Incorporation	1799
Date of City Charter	1961
Form of Government	Council—Manager
Number of City Positions (FY 04/05 Adopted)	401

Physiographic

Land Area	
Square Miles	6.34
Acres of Public Parks & Open Space	188
Paved – Lane Miles	169
Sidewalks	87

Utilities

Telephone	Verizon
Electric	Dominion Virginia Power
Gas	Washington Gas
Water	City of Fairfax
Sewer	City of Fairfax
Cable	COX Cable

Economic Indicators

Largest Private Employers (December 2003)

SunTrust Bank
Verizon Wireless
Fairfax Nursing Center
Ted Britt Ford
Brown's Automotive Group

Largest Public Employers (December 2003)

Federal Technology Services
City of Fairfax
Fairfax County

City of Fairfax Employment

	<u>2nd Qtr 02</u>	<u>2nd Qtr 03</u>	<u>% Change</u>
Construction	1075	957	-11.0
Manufacturing	125	122	-2.4
Transportation,			
Communications	115	124	+7.8
Trade	4123	4153	+0.7
Finance, Insurance,			
Real Estate	1370	1301	-5.0
Services	8937	9268	+3.7
Government	1394	1553	+11.4
Information	776	712	-8.2
Other	112	102	-8.0

Unemployment Rate

	<u>12/02</u>	<u>12/03</u>	<u>% Change</u>
City of Fairfax	1.6	1.8	.1
Virginia	3.6	3.3	-.2
Northern Virginia	2.6	2.1	-.5
U.S.	5.7	5.6	-.3

Retail Sales (in thousands)

	<u>4th Qtr 02</u>	<u>4th Qtr 03</u>	<u>% Change</u>
City of Fairfax	900,000	950,000	+5.5

Tourism

	<u>12/02</u>	<u>12/03</u>	<u>% Change</u>
Number of Hotel/ Motel Rooms	578	578	0
Occupancy Rate	66.2	67.6	+2.1
Average Daily Rate	\$74	\$72	-2.5

Vacancy Rates

	<u>4th Qtr 02</u>	<u>4th Qtr 03</u>	<u>% Change</u>
Office Space	4.4%	6.7%	+52
Retail Space	2.0%	1.0%	-50
Industrial	.01%	0	0

*New category identified

Taxes**Real Property Tax Rate**

FY 2005: \$.90 per \$100 assessed value

FY 2004: \$.92 per \$100 assessed value

FY 2004 Value of one-cent on the

Real Property Tax Rate Approx. \$388,000

Personal Property Tax Rate

FY 2004: \$3.29 per \$100 assessed value

FY 2003: \$3.29 per \$100 assessed value

City Finances**Bond Ratings**

Moody's Investors Service, Inc	Aa1
Standard & Poor's	AA+

Population

2003 Estimate	22,400
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2000 U.S. Census	21,498
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1990 U.S. Census	19,622
------------------	--------

Households

2003 Estimate	8,390
---------------	-------

2000 U.S. Census	8,035
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1990 U.S. Census	7,362
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Average Household Size

2003 Estimate	2.61 persons
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2000 U.S. Census	2.61 persons
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Age (2000 population)

(1-19)	4,853
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(20-34)	5,117
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(35-64)	8,775
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(64 +)	2,753
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Median Age (2000)	36
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Median Age (1990)	33
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Race and Ethnicity (2000 Census)

White (Non-Hispanic)	72.9%
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African American	5.1%
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Hispanic (all races)	13.6%
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Asian & Pacific Islander	12.2%
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American Indian and Alaskan Native	0.4%
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Total*	100%
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*Percentage column does not sum to the total shown due to rounding; U.S. Census data indicate net international migration for 1990 – 1998 as 9.0%.

Source: U.S. Census Bureau 2000 Census

Median Household Income – 2003 Estimate

City of Fairfax	\$ 75,028
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Northern Virginia	78,523
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2000 U.S. Census – City of Fairfax	67,642
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Registered Voters

January 2004	13,819
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Housing**Housing Units – June, 2003**

Single-family Homes	6,208
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Condominiums*	1,004
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Rental apartments (est.)	1,574
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Total	8,786
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*Townhouse condos are counted as single-family homes.

Housing Units by Occupancy

	Owner	Renter
2000 U.S. Census	69.1%	30.9%

Average Assessed Value (2003)*

All Residential Units	\$ 291,700
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Single-Family Homes	318,305
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Condominiums**	115,247
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*Includes new construction

**Townhouse condos are counted as single-family homes.

Average Market Rents

	2003
Efficiency	\$ 785

1-Bedroom Apartment	837
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2-Bedroom Apartment	1,013
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3-Bedroom Apartment	1,381
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Median Assessed Value of Homes and Condominiums (2003)

Assessed Value	Units	Total Value	Median
Less than \$99,999	1165	\$148,544,700	\$127,506
\$200,000--\$299,999	2918	746,664,200	255,882
\$300,000--\$449,999	2297	802,884,500	349,536
\$450,000 and over	584	332,661,500	569,625

Source: Real Estate Assessor

Goal Setting and Guidelines

The 2020 Commission Report, completed in 1994, remains the City's guide for strategic planning for the future. The aging of the City's population, infrastructure, housing, public schools and business corridors all were identified as major issues that must be addressed for our community to continue to prosper and thrive. One of the important goals of the City's budget is

Planning for the Year 2020

to continue to link the recommendations of the 2020 Commission Report with the adopted expenditures for FY04-05.

In 1998, City Council convened a Livability Task Force to build on the work of the 2020 Commission. The focus of the Livability Task Force was on neighborhood rejuvenation and community outreach. In the FY04-05 budget year, funding is included for a number of Task Force recommendations, as well as for the Open Space Acquisition fund established as a result of the November 2000 advisory referendum.

Most recently, the City has undertaken a full-scale review of its Comprehensive Plan; adoption is scheduled for later this year. As the City's official guide to its future development, the Comprehensive Plan builds on the work of the 2020 Commission and Livability Task Force and has set as its guiding principle to protect, sustain and enhance the desirable qualities of:

Comprehensive Plan

- The City's residential neighborhoods
- The City's centers of commerce
- The "small town character" in Old Town and throughout the City of Fairfax by:
 - o Promoting revitalization in declining neighborhoods and commercial properties
 - o Promoting the replacement of facilities that are beyond reasonable repair
 - o Promoting attractive, traditional design in all new and revitalized facilities
 - o Assuring efficient movement of traffic along safely designed streets

Budget Development Objectives

In developing FY 04-05 budget, priority was given to funding those projects that would most directly impact the goals set forth in the 2020 Commission Report, the Livability Task Force Report, and the proposed Comprehensive Plan. Many of the projects have been on-going for a number of years, but some are more recent. Beyond the standard measures that apply to all decisions to fund or not fund a particular project or function, particularly high priority was placed on funding projects and programs that directly impacted the following FY 04-05 budget objectives.

- Commitment to **exceptional services**
- Strong support and commitment of resources to **education** and **public safety**
- **Reinvestment** in **infrastructure**
- Funding for **neighborhood revitalization/community livability** programs
- Funding for **Old Town** and **Lee Highway corridor** redevelopment initiatives
- Adherence to **prudent fiscal policies**
- Adequate **compensation and benefits** for employees
- Investment in **City facilities** and **programs**
- More resources committed to **historic properties and programs**
- Continued resources committed to **open space** preservation/acquisition
- **Investment** in **water** and **sewer** systems
- Use of **technological advances** to improve City services and programs

The financial and operating strategies used to frame the FY 04-05 budget incorporate a careful review of available funding sources and a thorough analysis of departmental requests. The adopted budget reflects our firm commitment to meet our budget development objectives within the limits of our means. Additionally, the City Council adopted specific guidelines for the preparation of the FY 04-05 budget, and the City has long-standing adopted financial policies. All of these factors are taken into account in preparing the budget, and in all cases, have been accomplished. Adhering to those guidelines, however, means that not all proposals can be funded. Choices have been made and City priorities have been met.

Council Adopted Budget Guidelines

- No reduction in the quality of City services.
Maintains existing service level in all areas.
- Projected revenues must equal or exceed proposed expenditures.
Current estimated revenues are sufficient to support current adopted expenditures.
- Strive to maintain the real property tax rate at no higher than the FY 03-04 rate.
FY 04-05 real property tax rate of 90 cents per \$100 of assessed valuation, a decrease of 2 cents.
- Maintain a General Fund balance equal to approximately 10 percent of the general fund expenditures in conformance with the City Council financial policy.
General Fund balance is 12.1 percent; cash reserves are not used toward budgeted operating expenses.
- Maintain the General Fund CIP transfer at the City Council financial policy level of approximately 5 percent of proposed expenditures.
Budgeted General Fund support of \$2,513,765, not including transfers to the Open Space and Old Town Service District funds or CIP projects funded with debt financing representing 2.9 percent of adopted expenditures.
- No additional personnel unless it would result in a net reduction in anticipated City expenditures. As vacancies occur, all positions to be evaluated against current needs and priorities.
One new full time position, to meet public safety concerns, funded by the General Fund; some reallocation in assignment of existing part time positions. Two new positions funded through the Water Fund to meet OSHA and general safety requirements.
- Provide a fair and affordable market adjustment for employees to retain parity with other local governments and if the economic environment allows.
Provides funding for 2.4 percent wage adjustment.

- Insure appropriate level of funding is directed to fund City Council priorities as outlined in Council's proposed goals for 2002-2004:
 1. Preserve and protect the City of Fairfax's "small town atmosphere" by
 - a. Expanding opportunities for citizen involvement in community decision-making.
 - b. Enhancing quality of life measures and amenities with continued emphasis on recommendations of the Livability Task Force.
 - c. Providing unsurpassed user-friendly, customer-focused business practices for all City operations.
 2. Adopt a revised Comprehensive Plan that will reflect development goals that are sensitive to and appropriate for the size and scale of the community.
 3. Finalize and implement current redevelopment and transportation projects:
 - a. Authorize selected developer(s) to proceed with the Downtown Redevelopment Project.
 - b. Lee Highway Corridor Master Plan
 - c. Northfax Gateway
 - d. Fairfax City Regional Library
 - e. George Mason Boulevard
 4. Continue to pursue the recommendations of the 2020 Commission with specific emphasis on:
 - a. Developing a capital financing plan that is responsive to the School Board's Master Plan for school's renovation.
 - b. Adoption and implementation of the Water Treatment Plant Master Plan.
 - c. Determining future use of the John C. Wood facility site.
 - d. Adoption and implementation of the Blenheim Site Restoration Master Plan.
 - e. Senior citizen issues related to housing availability and tax relief.
 - f. Reduction of the impact of increasing traffic through the City.

Funding included for economic development, City facilities, historic properties, schools, open space, and neighborhood improvements; additional studies underway.

- Continue to pursue cost containment strategies.
All programs reviewed annually for efficiency of operations.
- Continue to seek additional funding through external sources.
Pursuing grant funding to extend City efforts in historic preservation, police, fire and rescue, and land use planning.
- Set water and sewer rates at a level sufficient to maintain an appropriate level of cash reserves and still fund necessary system improvements.
Water and sewer rates increase five percent. Extensive system improvements scheduled for the next several years. Water and sewer connection fees unchanged.
- Implement Council agreed-upon green space acquisition.
Budgeted funding to be added to set aside fund established in FY01-02.

Council Adopted Financial Policies

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the City, in April 2000, the City Council proposed a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. In all cases, these policies have been adhered to in the preparation of the adopted FY 04-05 budget.

Budgeting Policies:

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
 - a. The Mayor and City Council shall develop general guidelines for the budget and provide them to the City Manager by November 15.

- b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
 - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
 - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.
 - e. The Mayor and City Council shall conduct a mid-point review of the implementation of the budget.
- 3. Budgeted current revenues must be greater than budgeted current expenditures.
 - a. Significant one-time revenues shall be used only for one-time expenditures.
 - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.
- 4. The target for the General Fund transfer to the Capital Fund shall be at least 5 percent of General Fund expenditures to help insure adequate reinvestment in capital plant and equipment.
- 5. The City shall set utility rates for the Water and Sewer Funds that will insure industry-standard operation of the enterprise functions.

Reserve Policies:

- 1. The target for the General Fund balance shall be, at minimum, 10 percent of General Fund expenditures and, as an upper limit, equal to 45 to 60 days of expenditures (12.5% to 16.7% of annual expenditures).

Debt Policies:

- 1. Debt Service Targets
 - a. Annual debt service expenditures shall be less than 9 percent of annual expenditures.
 - b. Outstanding Debt shall be less than 3 percent of assessed valuation.

2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Revenue/Cash Management Policies:

1. The City shall maintain an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue.
3. The City shall manage its cash in a manner designed to prevent the necessity of utilizing short-term borrowing to meet working capital needs.
4. Annual City revenues shall be projected by an objective and thorough analytical process.
5. The City shall deposit all funds within 24 hours of receipt.
6. Investment of City funds shall emphasize the preservation of principal with safety, liquidity and yield being the primary factors considered.

Accounting/Auditing and Financial Reporting Policies:

1. The City shall take all necessary actions in order to continue receiving the Government Finance Officers Association awards for the budget and for the comprehensive annual financial report (audit).
2. An independent audit shall be performed annually and a management letter received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.

Economic Condition and Outlook

A diversified economy is generally more resilient and more stable than one that is heavily concentrated in one or two areas. The City of Fairfax is in a particularly favorable position because its own local economy is relatively diverse and it benefits from its location as part of the Northern Virginia region and from the current priorities in federal spending.

It long has been recognized that the Washington metropolitan area economy is different from that of other area economies. While not “recession proof”, economists cite an economic structure of core industries that is different and less cyclically sensitive, dominated by federal spending and federal procurement with fewer businesses in the manufacturing sector. This core industry structure continues to protect the Washington area, and is an important contributor to our local economy.

Federal Indicators

Federal spending in the Washington region continues to increase. These spending increases are in two primary sectors – outsourcing for technology and professional and managerial services and for the war on terrorism. Businesses that serve these needs continue to move into the City and the Northern Virginia region. Between November 2002 and November 2003, Northern Virginia, with its high concentration of government contractors, picked up 22,000 jobs.

According to recent studies by Stephen Fuller, federal spending in the Washington region accounts for about one-third of the gross regional product (the value of goods and services produced locally). And, while the net number of civil service jobs may be declining, when contract and grant related jobs are included, the number increases. The same Fuller study concludes that...“Federal procurement contract awards to firms located in the Washington area and doing their contract work locally accounted for 43 percent of all federal spending in the area, while federal salaries and wages accounted for 29 percent. Two decades ago, these percentages were approximately reversed.”

Because City residents work in businesses located outside the City and the reverse is true as well, the actions of the federal government have both direct and indirect impacts on the City’s

economy. The effects of federal spending are seen in everything from direct consumer spending to business investment and job growth and employment.

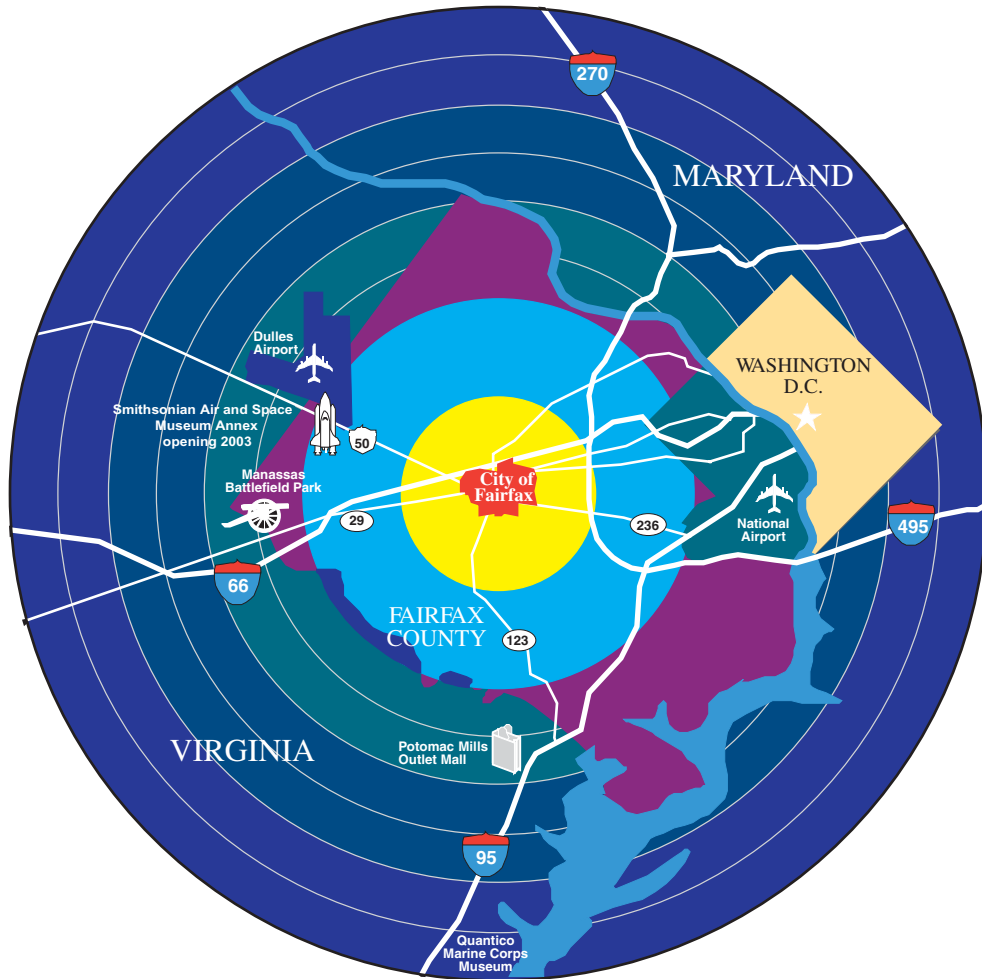
State Indicators

The City also is significantly impacted by state actions. While state tax collections are rebounding after two years of flat or declining tax collections, state officials are also indicating that higher tax collections may not be enough to cover current levels of existing programs. Additionally, last year's state budget was balanced in part with one-time options. That money will not be available again this year.

The General Assembly is considering a number of tax restructuring proposals, some of which may increase state funding. However, equally likely could be level or potential reductions in state aid for transportation, education, law enforcement, and social services, as well as cost shifting to localities for wholly or partially supported programs. Until the state budget is adopted, we must budget state revenues conservatively, which means more or less even with last year's.

Local Economy

The City's central location in Northern Virginia is one of the most significant factors in the strength of its economy.

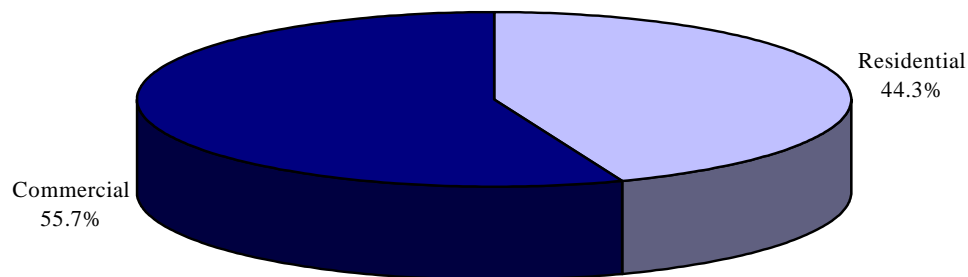


The City of Fairfax is at the crossroads of Northern Virginia's major north/south and east/west highways, and within 30 minutes of both Dulles International and Reagan National Airports. Interstate 66 borders the City to the north and George Mason University is located at its southern border; Routes 123, 29, 50 and 236 all intersect along the City's central business corridor.

Over 300,000 cars pass through the City daily, accounting for much of the commercial revenue generated in the City, particularly sales and meals taxes and, more indirectly, BPOL and commercial assessed values. Many of those not destined for the City but passing through will

stop to shop. Through its planned revitalization of Old Town Fairfax and the Lee Highway corridor, making these areas destinations, the City is hoping to capture an even greater share of these expenditures. This non-residential tax base is why an unusually high percentage of the City's revenue is approximately 55.7 percent in FY04-05, significantly higher than that of some area jurisdictions, will be generated by the commercial sector. This allows the City to maintain the lowest overall tax rate in Northern Virginia, as it spreads the tax burden out to non-residents.

Revenue Generated By
Commercial and Residential Sectors
FY04-05



The economy of the City of Fairfax has regained most of the momentum lost during the economic slowdown of 2000-2002. When this year began, the City's office space vacancy rate was over 8.5 percent; it is now 6 percent and declining. That is a net absorption of 100,000 square feet. The City's office vacancy is much lower than that of other Northern Virginia jurisdictions – the next closest is 15.7 percent, but it is higher than it had been for several years. Retail vacancy is at an all time low – under 1 percent.

Retail sales, one of the most important revenue sources for the City, have recovered at a rate exceeding 10 percent, due to the infusion of new retail outlets and improved same store sales. Restaurant sales have continued to improve, approaching 5 percent increases annually. One final category, Business Professional Occupational License (BPOL) revenue, also has begun a recovery with an increase this year exceeding 10 percent.

The Enterprise Center continues to be a successful project, with several clients on the waiting list. A total of thirteen businesses have now graduated from the Center, up two from last year. The Center is expanding its outlook to include foreign incubator companies. Six Swedish companies have indicated an interest in locating offices in the incubator as a first step in entering the US market. A grant has been applied for that will create additional demand for foreign incubator space, if it gets approved.

A few facts highlight the City's position:

- The City has an inventory of 4 million square feet of office space with a vacancy rate of 6 percent; rental rates are up to \$29 per square foot
- Retail space totals 3.7 million square feet with a vacancy rate of less than 1 percent, and rents in the Lee Highway corridor have broken the \$40 per square-foot barrier
- Industrial space continues to be 100 percent occupied for all 400,000 square feet
- Taxable retail sales for the year will approach the \$1 billion level
- The addition of new restaurant and grocery store properties has resulted in increased revenues from restaurants
- Information technology businesses, over 155 strong, continue to move into the City
- New home construction and the price of new homes have continued to be strong elements in the City's economy. Three projects are nearing completion and have added nearly 300 new homes to the City's inventory, with an average sales price of \$420,000. A single-family home project with 100 homes is now under construction with the base models selling for \$750,000. Another 200 homes are in the early stages of the planning and approval process
- A new office building of 23,000 square feet is in the final stages of the approval process and two other commercial projects are in feasibility studies.
- The redevelopment project in Old Town Fairfax is on track with the selection of a new developer this past fall in a competition that saw eight proposals submitted. The new development plan calls for 90,000 square feet of retail space, 40,000 square feet of office space, a new Library of 40,000 square feet and 60 residential condominiums. This project is hoped to provide the spark for the redevelopment of several other properties in Old Town Fairfax. The private investment is projected at \$65 million and the City will be constructing public projects in support of the redevelopment of another \$13 - \$20 million.
- The City is committed to its plans for the future revitalization of the Lee Highway corridor

The largest revenue generator for the city continues to be the still-increasing local housing values and continued new residential construction. The City's central location

combined with low mortgage rates and a continuing tight supply of available houses have combined to increase real estate values by 13.2 percent in 2003 and by an additional 11.8 percent in 2004. The appreciation in home values and the accompanying increase in home equity combined with low mortgage rates spurred mortgage refinancings, which in turn helped boost consumer spending on remodelings, adding additional value.

The strength of the local housing market, while certainly a positive economic indicator, also is a bit of a double-edged sword, as it illustrates the City's dependence on a major revenue source that has risen dramatically in the past, only to plunge sharply and recover at a very slow pace over a period of years. While rising housing values clearly is a positive, the impact on homeowners is also recognized. Although the City's economic base is more diverse than that of some other jurisdictions, it still is tied to few options to turn to if those tax revenues fall.

The overall revenue picture remains positive for the City. Our economy is diversified. The City has access to a few non-real estate related sources of local revenue, and our local housing market remains strong and shows positive signs that that trend will continue. FY04-05 General Fund revenues are projected to increase by an estimated 9.7 percent over FY03-04. However, the City will face serious challenges in the years ahead as pressures for additional spending outstrip the ability of current revenue sources.

Cash Management

Fund Balance

It is critically important to maintain an adequate fund balance. By financial policies recommended by both the City's financial advisors and our auditors, and adopted by the City Council, our goal is a fund balance equal to a minimum of 10 percent of our General Fund expenditures.

More than being key to maintaining and/or potentially improving the City's bond rating, an adequate fund balance allows the City to cope with revenue shortfalls, to pay for unbudgeted expenditures or unanticipated needs, or to pay for other one-time large expenditures. In FY 03-04, the City was able to pay Fairfax County \$1 million to address a \$2.7 million misallocation by the State of vehicle rental taxes; the remaining balance due will be repaid over ten years. This resolution would not have been possible without the availability of these funds in the fund balance.

In addition to being a sound budgeting practice, the interest earned on the fund balance through sound investing by the City Treasurer is a source of current revenue, \$750,000 in FY04-05, although historic low short-term interest rates continue to significantly reduce this revenue from previous years. Three years ago, City investments earned 4 percent. Current rates average 1.2 percent. That difference is equivalent to two cents on the City's real estate tax rate.

*Fund Balance Minimum
Goal Of 10 Percent*

The adequacy of unreserved fund balance needs to be assessed based on a locality's specific circumstances. In preparing the annual budget, projected revenues must equal or exceed expenditures; we must live within our means and cannot rely on the fund balance to support recurring or operating expenditures. The 2003 Comprehensive Annual Financial Report from the City's auditor stated, "It has always been our recommendation that a government strive to be near the top of (that) range at fifteen percent of operating revenues..." The ten percent goal established by the City is a minimum goal; we should strive for a higher percentage, particularly in view of the increasing debt the City is considering in the next few years.

General Fund Balance -- Adopted Budget

	Amount	Percent of General Fund Expenditures
FY04-05*	\$10,456,564	12.1
FY03-04*	10,456,564	13.0
FY02-03	10,456,564	13.9
FY01-02	9,954,003	14.1
FY00-01	9,576,156	12.9
FY99-00	9,211,876	13.3
FY98-99	8,269,897	13.3
FY97-98	9,106,063	16.3
FY96-97	8,465,278	16.4

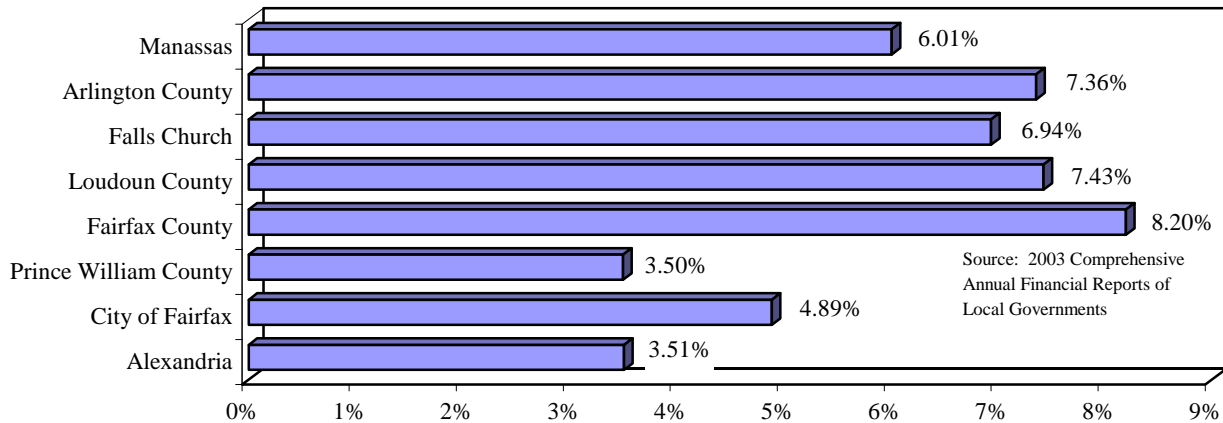
* estimated

We remain in uncertain and somewhat volatile economic times. We recognize that tax rates should not rise merely to build up the fund balance. However, a healthy fund balance can cushion the impact of large scale increased expenditures so that tax increases that still may be necessary do not have to be so steep. Understanding that we need to find a reasonable balance between the need for an adequate fund balance as well as a reasonable real estate tax rate.

Debt Service

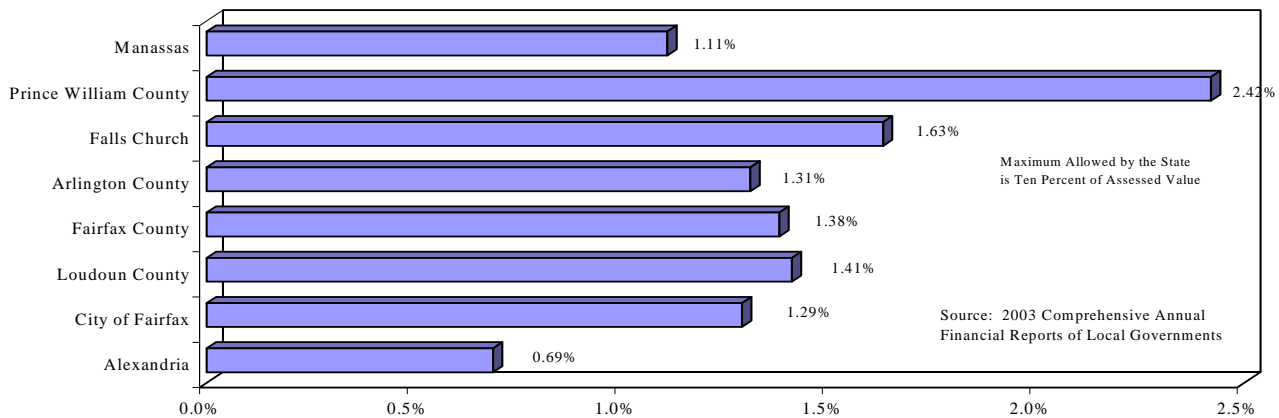
The City currently is repaying bonds for projects to improve City schools, streets, municipal properties and storm drainage. In the past, the City has used bonds sparingly. The City's bond rating for its current general obligation bonds is excellent: AA+ from Standard and Poor's Corporation and Aa1 from Moody's. Because of those high ratings, City bonds are desirable and carry favorable interest rates. We must ensure that our budget actions allow us to retain these high ratings.

Annualized Debt Service as a Percent of General Fund Expenditures



While the City's debt burden still is considered to be moderate – and remains low when compared to that of most Northern Virginia jurisdictions – it has risen and potentially will rise again. Although no debt service payments would be payable in FY 04-05 from an anticipated school bond referendum in November 2004. Debt service costs are up \$941,014 in FY04-05 over FY03-04. This increase is due to anticipated new debt service for open space purchases, Blenheim renovations, and the construction of a new library. This has increased the percentage of General Fund expenditure allocated to repaying debt by 16.6 percent. We also continue to earn interest on the bond funds, but sharply lowered interest rates over the last several years have significantly reduced this amount. The City's financial advisors monitor all outstanding City debt every month to review our options for refinancing in order to reduce City debt costs; a 2003 refinancing resulted in savings of \$110,000 in the Water Fund and a 2004 refinancing will result in \$202,000 in General Fund and \$52,000 in Water Fund savings.

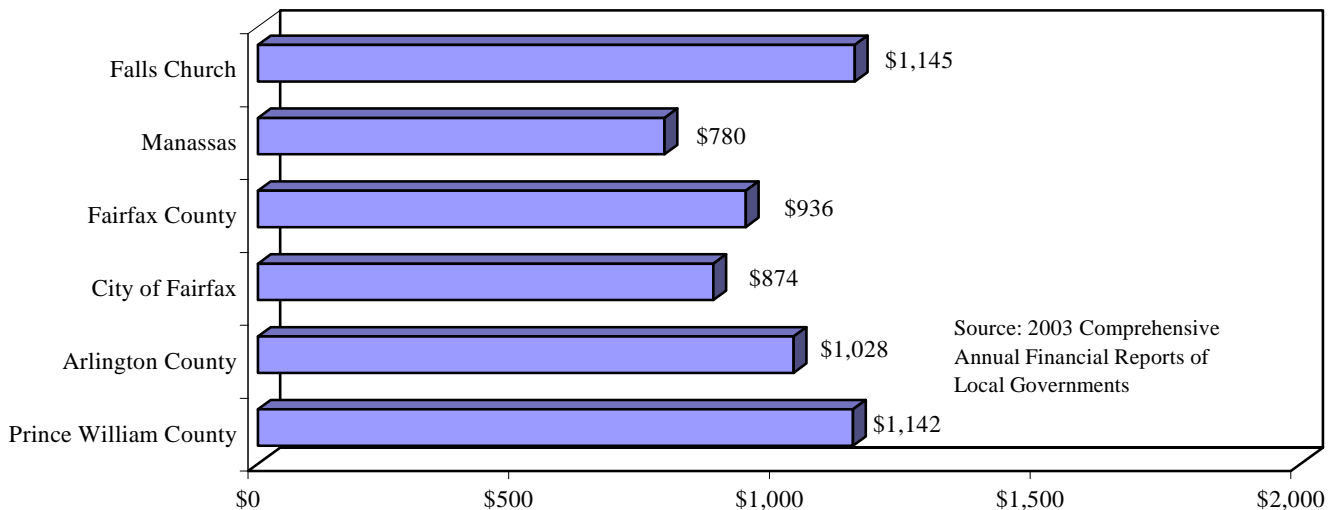
Outstanding Debt as a Percent of Assessed Value*



* Excludes Enterprise Fund Debt

The City's education debt also compares very favorably with that of other area jurisdictions.

Per Capita Education Debt



The City has several potential projects that will require some form of financing. The proposed school bond referendum for Lanier and Fairfax High represents the largest potential project. Additionally, in the upcoming months we will be considering a line of credit or other type of financing to finance additional open space purchases and historic property renovations. The more rapid amortization offered by short-term or private financing in this current interest environment will allow the City to take advantage of current conditions and initiate these steps

for these more long-term projects without the necessity of going to the bond market. The City also continues work on redevelopment projects in Old Town Fairfax and along the Lee Highway Corridor. Both projects represent some form of public/private partnerships that will require bonding and/or other financing in the future.

Short and long term financing represents sound fiscal strategies that allow the City to leverage its resources to its benefit. Again, the City is fortunate because we have a relatively low debt burden; there is room to add debt and structure it to the City's advantage.

FY04-05

Expenditure Overview

The primary responsibility in developing a budget is to balance revenue capacity with service requirements. The continuing uncertain economic picture and a desire to mitigate any increased tax burden on our citizens has resulted in a budget that maintains services and core programs and includes only minimal service enhancements and no new programs.

This is a time when the City needs to re-examine its priorities. Not everything we currently do can continue to be funded and, at the same time, have the City embark on very costly capital projects – particularly those related to schools, historic properties and open space – without either reducing other expenses or significantly increasing taxes. Our revenue growth within existing resources – even if the rise in real estate values continues – cannot provide sufficient revenue for all of these projects.

Although some of the City's expenditures are discretionary in nature, many of the City's largest expenses either are fixed, or in the case of contract expenses that make up 42.9 percent of our budget, outside of our control. Except for these essentially fixed or contract costs, in almost all areas, we actually are reducing our level of expenditures this year, essentially spending less on operating costs. We have followed that course in previous years as well.

The expenditure categories that drive the budget every year are remarkably the same; education, increasing debt service to pay for long-term investments in City facilities, capital outlay, and the occasional expansion in some service or program (everything from CUE buses to expanded security needs to programs for youth and seniors). It is helpful to look at a ten year history of expenses to gain some perspective on where our resources are allocated.

CITY OF FAIRFAX, VIRGINIA
EXPENDITURES BY FUNCTION
FY 95-96 to FY 04-05

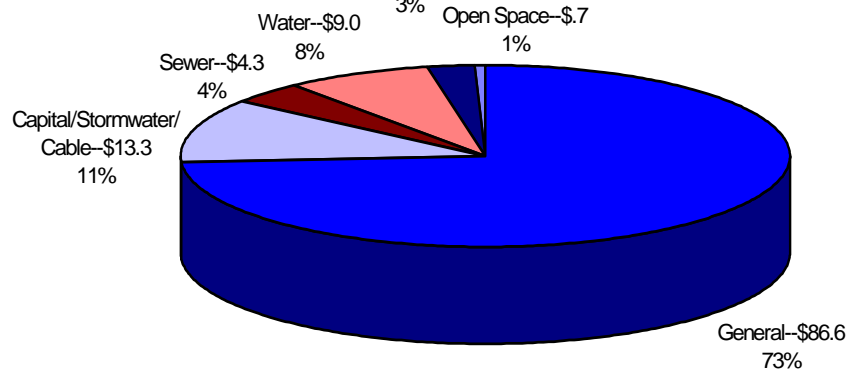
Fiscal Year	Police	Fire & Rescue	Public Works	Social Services	Culture & Recreation	Comm Develop & Planning	General Debt Service	Education	Transfer to Other Funds	Other	Total
1995-96	6,029,321	4,934,592	5,734,242	2,841,947	2,060,782	589,352	770,464	17,326,248	3,458,660	5,565,748	49,311,356
1996-97	6,234,289	5,084,426	5,581,961	2,652,144	2,091,339	526,233	756,109	18,499,859	4,360,869	5,699,936	51,487,165
1997-98	6,396,301	5,177,880	6,166,573	2,715,137	2,178,504	1,131,652	745,903	20,897,335	4,280,637	6,291,533	55,981,455
1998-99	6,383,579	5,157,747	6,218,266	2,925,493	2,319,818	1,166,713	763,869	23,641,677	7,351,350	6,065,354	61,993,866
1999-00	6,576,956	5,357,060	6,606,118	2,705,664	2,482,193	1,374,276	745,738	26,200,992	4,430,677	6,824,403	63,304,077
2000-01	7,286,666	5,998,562	7,194,954	2,963,939	2,876,085	1,579,138	750,473	27,274,957	6,081,546	7,636,009	69,642,329
2001-02	7,376,503	6,093,376	7,230,153	3,309,906	2,859,766	1,676,509	752,818	29,024,104	4,650,928	7,663,833	70,637,896
2002-03	7,762,476	6,585,534	8,032,632	3,437,940	3,013,396	1,610,566	1,310,396	29,735,773	6,480,267	7,416,974	75,385,954
2003-04	8,149,555	7,023,827	8,525,949	3,874,131	3,523,940	1,653,958	3,409,536	32,347,552	4,095,565	7,562,209	80,166,222
2004-05	8,868,876	7,635,935	8,930,051	4,158,355	4,032,451	1,711,929	4,409,050	33,551,042	5,356,353	7,914,516	86,568,559
(1)	2003-04 is estimated.										
(2)	2004-05 is adopted.										

The same pattern that has held true in the past, with a few exceptions, is true for this year, with schools, contract and other non-discretionary expenses the primary factors.

Budgeted Expenditures by Fund

FY 04-05

in Millions
Transit--\$3.1



Total FY04-05 Fund Expenditures = \$116,986,027

Budgeted Expenditure Summary

Fund*	Adopted FY03-04	Adopted FY04-05	Percent Change
General	\$ 78,901,112	\$ 86,568,559	9.7
Stormwater	155,000	270,000	74.2
Capital	2,207,856	2,513,765	13.9
Cable	112,000	112,000	0.0
Sewer	3,628,348	4,358,312	20.1
Water	10,778,167	9,022,463	-16.3
Transit	2,696,420	3,129,873	16.1
Open Space	8,550,000	650,000 **	-92.4

*excludes Old Town Service District funds as no expenditures appropriated to date.

** Only \$1,410,000 expended through 2/03; an additional \$650,000 is needed to finance remaining planned acquisitions.

The following chart and discussion briefly examine the major changes in the expenditures from last year's FY03-04 budget.

FY04-05 General Fund Changes

Revenues		Expenditures	
Real Estate Taxes	\$3,892,210	Schools	\$1,203,490
Personal Property Taxes	(595,000)	Contingency – Vehicle Rental Tax	130,000
Other Local Taxes		Transfer-Water Fund Loan Repayment	1,200,000
Sales	1,150,000	CIP Transfer	305,909
BPOL	450,000	Transit Fund Transfer	287,288
		General Debt Service	999,514
Classroom Rental Fee	1,200,000	Special Events	180,837
City County Contract (Library)	783,125	Ballfield Maintenance	141,609
Other	33,430	Tax Relief	255,151
State School Aid	753,682	County Contracts	152,027
		Health Insurance	454,541
		Market Adjustment	509,127
		Retirement Contribution (VRS)	1,152,826
		Compensation Enhancements	
		Public Safety	362,355
		City Insurance (Non-Health)	110,467
		Other	222,306
Total	\$7667,447	Total	\$7,667,447

Schools

School costs represent the single largest expenditure category in the City's budget. This is not unique to the City; in fact, the percentage of the City's budget that goes to education

actually is lower than that of most other area jurisdictions.

School Costs Increase

Nevertheless, because of the percentage of the budget that it represents and because of continuing significant

increases in the number of City students, general increase in tuition costs and capital spending requests, school costs continue to be the primary determining factor in the size of the City's budget and in the tax rate that must be levied to pay for those costs.

Altogether, education costs are up \$1,203,490 over last year. The total cost for schools, \$33,551,042 less school state aid of \$5,588,358 and the county classroom rental change of \$1,200,000, is the equivalent of \$26,762,684, or 74.2 percent of the City's real estate tax income.

The school tuition contract for FY04-05 as adopted by the School Board is up \$1,253,289 over last year's budgeted contract. The total cost of the FY04-05 tuition contract is \$30,338,289; this is a 95.5 percent increase over FY94-95, ten years ago, when tuition contract costs were \$15,520,000.

Open Space

In November 2000, by a two-to-one majority, City voters approved an advisory referendum to increase the real estate tax rate by up to five cents a year for a maximum of five years to provide more money for open space acquisition. Annually since FY01-02, three cents has been set aside, yielding approximately \$3,956,000. Funding at the three-cent level is included in this adopted FY04-05 budget. Three cents will yield approximately \$1,130,000.

To date, Council has purchased two properties through this fund, and initiated condemnation action on additional properties. While the exact purchase price of all properties is unknown at this time, estimates indicate the total costs will consume the total accumulated assets in the Open Space Fund, and likely will exceed the amount if additional funding is not maintained beyond the initial five years. In any case, purchase is likely to occur in advance of all funding being accumulated in the Open Space Fund. Because short term interest rates remain at historic lows, a combination of certificates of participation (COPS) and/or a line of credit has been identified as the most cost effective method of financing these purchases. This will, of course, increase the City's short-term debt level, but is a reasonable and fiscally prudent action.

Debt Service

As was anticipated, debt service costs have increased due to additional projects requiring financing in FY 04-05.

The additional projects that will require financing in FY04-05 generate an increase in debt service of \$941,014. These projects include open space purchases, the Blenheim project and construction of a new library.

Salaries and Benefits

We must continue to invest in our workforce if we are to continue to deliver high quality services and operate efficiently and effectively. The City's compensation plan reflects Council's goal to provide fair and equitable compensation and benefits. Overall, total salary and benefit costs will rise by \$2,698,116 or 10.5 percent over FY 03-04 salary and benefit costs.

Two factors driving up compensation costs are new this year – significant increases in pay for public safety and a significant (albeit possibly short-term) increase in the City's share of costs for the Virginia Retirement System (VRS).

During the past year, the City Council has expressed continuing concern regarding the City's ability to maintain pay equity with other area public safety agencies. Extensive surveys were conducted and implementation of the adopted compensation changes will move the City from the lower ranks to very close to the top compensation paid by the area's largest and most competitive jurisdictions.

Public Safety Salaries Increase

What we found in doing the surveys was that the City offered competitive salaries at the entry level, but less competitive salaries after that. Additionally, for fire positions, all of the City's fire medics are Advanced Life Support (ALS) Certified; that certification qualifies for additional pay in other area jurisdictions. The same type of premium or bonus pay is true in other jurisdictions that compensate police officers (and other shift workers) with a shift differential pay for scheduled hours worked outside the normal daytime work schedule. We need to take the adopted steps in order to ensure that our public safety departments do not become training grounds for City employees who build a base of work experience and then enter the rank structure of another department that provides greater salary potential than the City. This

is a multi-year process. We will review this again next year and make further adjustments if necessary.

Specific recommended changes to pay plans for implementation in FY 04-05 include the following:

- Fire and Rescue
 - Reclassify/Upgrade 22 positions (\$83,263)
 - ALS Premium Pay of \$4,200 per certified personnel (\$163,800)
- Police
 - Reclassify/Upgrade 22 positions (\$86,292)
 - Shift Differential (\$29,000)

The City also is faced with a sharply increased payment to the Virginia Retirement System (VRS). The City's payment in FY 04-05 is \$2,627,162, up \$1,270,892 over FY 03-04. Locality payments to VRS are based on two year performance by the VRS retirement fund; the FY04-05 and 05-06 rates are being calculated based on fund performance in the very lowest period between June 2001 and June 2003. The market sharply recovered after that and, assuming it continues to perform as predicted, locality rates may well drop again when the next two year calculation period is completed.

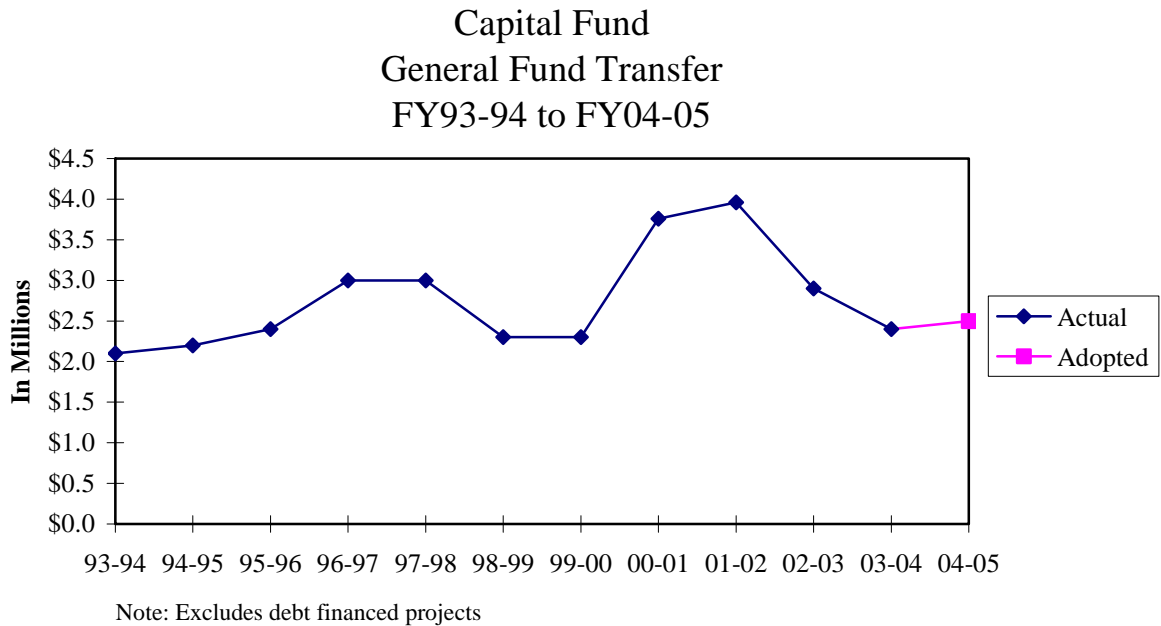
A 2.4 percent wage adjustment maintains the City's overall salary position and allows pay scales for all employees to remain competitive with the market. It is based on a formula that gives equal weight to the Employment Cost index, wages and salaries (ECI) and to the Consumer Price Index (CPI). The ECI is the rate of inflation of wages and the CPI is the rate of inflation of consumer products and services.

As has been the case for a number of years, health insurance costs have increased, although this cost increase is shared by employees. A few non-public safety reclassification actions also are being taken to maintain parity with surrounding jurisdictions and ensure the City can retain specialized personnel in selected positions. However, this has minimal effect on the overall cost of salaries.

Capital Improvement Program

Capital program management covers three basic areas – constructing projects, maintaining them once they are built, and planning for the future. When budgets are limited,

equipment purchases and large maintenance efforts often are delayed. These needs cannot be deferred indefinitely without long-term consequences. The City remains committed to ensuring adequate support for protection and enhancement of capital resources, and that is reflected in Council's financial policy to transfer funds equal to five percent of the General Fund to the Capital Fund.



The CIP included in this adopted budget requires a general fund transfer of \$2,513,765 from the General Fund or 2.9 percent. The General Fund will also service the debt financing of several CIP projects. Combined, the CIP projects funded by a general fund transfer and debt financing exceed the financial policy guidelines of a transfer of not less than five percent that the City Council established.

In FY04-05, while we do maintain the overall level of General Fund support to the Capital Fund, in order to balance the budget many projects originally included in the Capital Improvements Program for FY04-05 presented to the City Council in January had to be postponed or reduced in scope. A total of \$2,355,179 in reductions was required in order to balance the City's revenue with its expenditures along with alternative financing for \$2,329,055 of the original projects.

General Fund Revenues

Overview	A-40 thru A-41
Real Estate Tax	A-42 thru A-46
Personal Property Tax	A-46 thru A-47
Local Sales and Use Tax	A-48
Meals Tax	A-49
Transient Lodging Tax	A-50
State Aid	A-50
Utility Tax	A-51
Cigarette Tax	A-51
Business License Tax	A-52

Overview

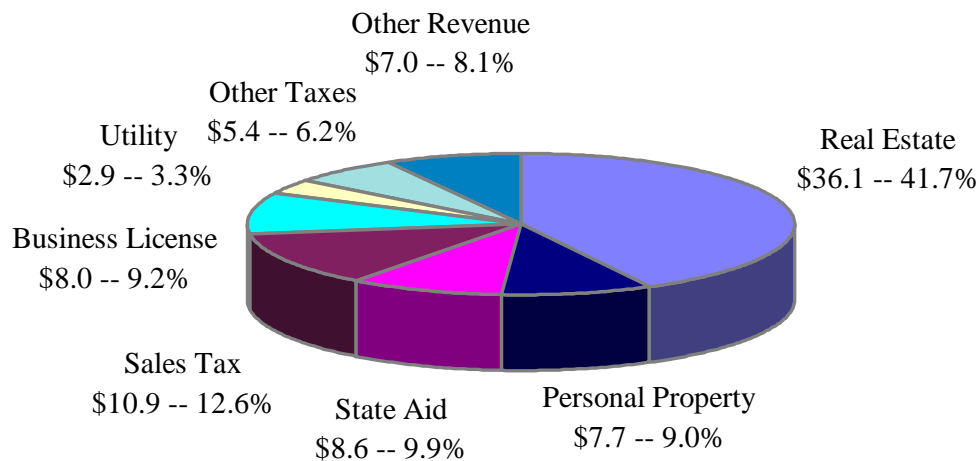
Revenue projections, for both FY03-04 and for FY04-05, generally are consistent with the estimates presented to the City Council in November during our mid-year budget review and goals setting session. Real estate revenues exceed FY03-04 projections and we anticipate still additional projected increases in FY04-05, although at a somewhat reduced rate. The City's sales and meals taxes continue to appear to be meeting revenue forecasts for FY03-04. Sales tax receipts, while increasing, are cause for some caution. Sales tax revenues instantly react to changes in the economy, and these remain uncertain (and somewhat unstable) economic times. Personal property tax revenue, while under estimated revenue in FY 03-04, appears to be stabilizing.

General Fund Revenue Increases

General Fund Revenue Sources: FY 04-05

Total: \$86,568,559

In Millions



If you examine the history of the City's revenues over the last ten years, two trends are evident. First, like all local governments, the City's primary source of increased revenue is the real estate tax. Collections from this source of revenue for the last ten years increased by 99.2 percent. During that same period of time, real property values in the City increased by 108.7 percent and wages and salaries, as measured by the Bureau of Labor and Standards, have increased by 43 percent.

The second trend is the consistency of the City's revenue base. Sales tax and business license tax revenues show good rates of increase; others are stable or show more modest gains. The City's primary source of revenue remains the real estate tax.

CITY OF FAIRFAX, VIRGINIA
GENERAL FUND REVENUES BY SOURCE
FY 95-96 TO FY 04-05

Fiscal Year	Real Estate	Personal Property	Local Sales	Business License Tax	Meals Tax	Other Tax	Inter- Governmental	Other Sources	Total
1995-96	18,508,610	5,495,461	7,021,644	4,777,094	1,282,831	4,074,712	5,885,263	2,265,744	49,311,359
1996-97	19,488,089	5,997,983	8,442,813	5,095,848	1,329,657	4,215,552	6,202,067	3,127,857	53,899,865
1997-98	19,779,814	6,154,443	8,228,539	5,374,810	1,532,142	4,558,503	6,378,392	3,974,812	55,981,455
1998-99	20,412,661	6,286,496	9,075,962	5,737,513	1,501,868	4,705,115	7,377,074	6,897,177	61,993,866
1999-00	21,987,554	6,687,851	8,866,976	5,925,615	1,614,337	5,091,326	8,447,881	5,116,341	63,737,881
2000-01	23,943,846	7,268,720	9,737,741	7,181,712	1,774,326	5,149,784	8,783,115	5,641,452	69,480,695
2001-02	27,057,806	7,742,347	8,889,946	6,958,288	1,839,986	5,219,207	8,460,554	4,847,661	71,015,795
2002-03	29,976,644	7,951,171	9,875,008	7,660,442	1,930,225	5,328,963	8,150,217	4,638,483	75,511,153
2003-04	32,936,953	7,679,500	10,425,000	7,800,000	2,000,000	6,051,554	8,104,983	5,168,233	80,166,222
2004-05	35,949,838	7,822,500	10,900,000	7,950,000	2,080,000	6,270,054	8,687,993	6,908,174	86,568,559
(1)	2003-04 is estimated.								
(2)	2004-05 is adopted.								

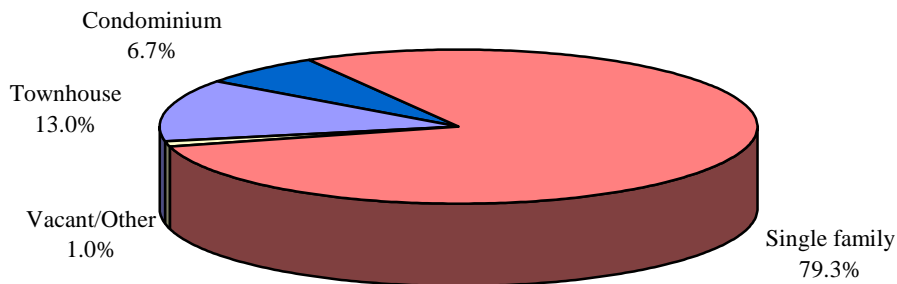
Real Estate Tax

Real property tax revenues account for the largest category of revenue for the General Fund, 41.7 percent. Because of continuing high re-sale activity and new construction, we continue to experience significant increases in assessments, particularly in residential valuations. Home sales volume remains strong, driven by high demand and a tight housing supply, as well as by still low mortgage costs.

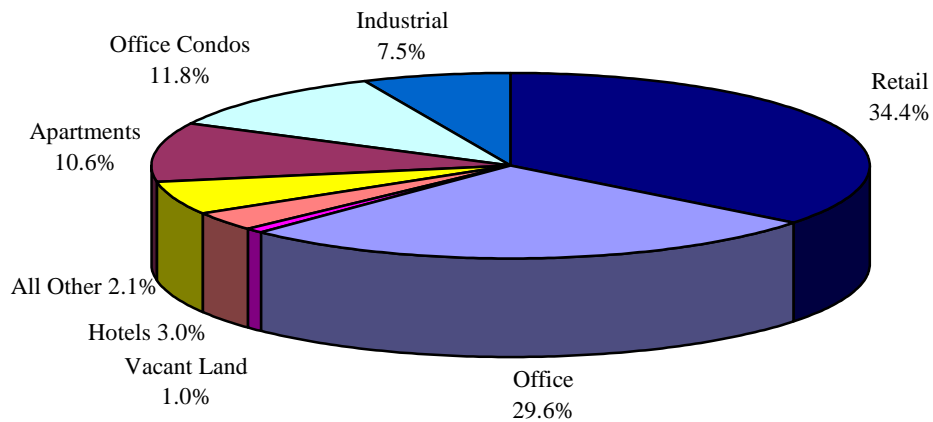
Total real estate assessments are up 11.8 percent in 2004. The overall residential assessment total has increased by approximately 13.6 percent due to new construction valued at \$10.3 million and \$276.9 million in reassessments. Single-family and townhouse residential assessments are up an average of 12.3 percent. Condominium sales prices have risen dramatically; those assessment increases average 20.3 percent.

Commercial assessments are increasing at a slower rate, but continue to increase. Commercial assessments have increased approximately 8.7 percent overall. The increase in commercial assessments is due to the relative continued low vacancy rate, although office vacancy rates have risen approximately 2 percent during the past year, and increased rental rates, as well as new construction.

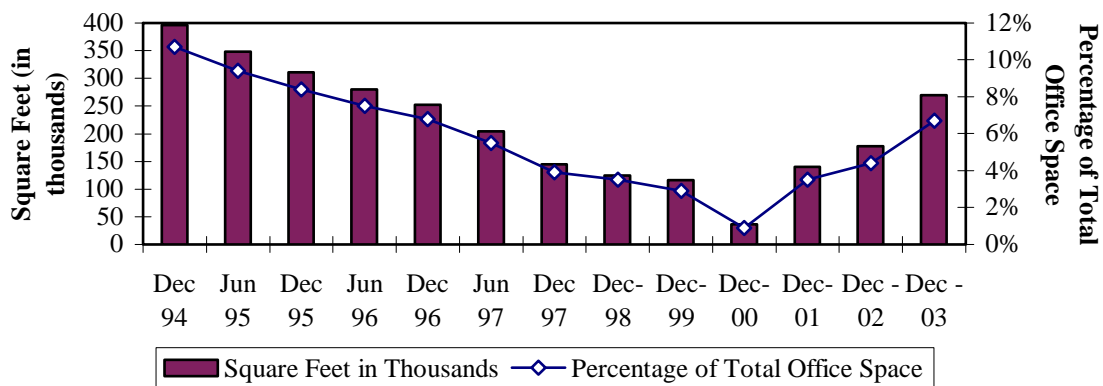
Residential Real Estate Tax Base (2004)



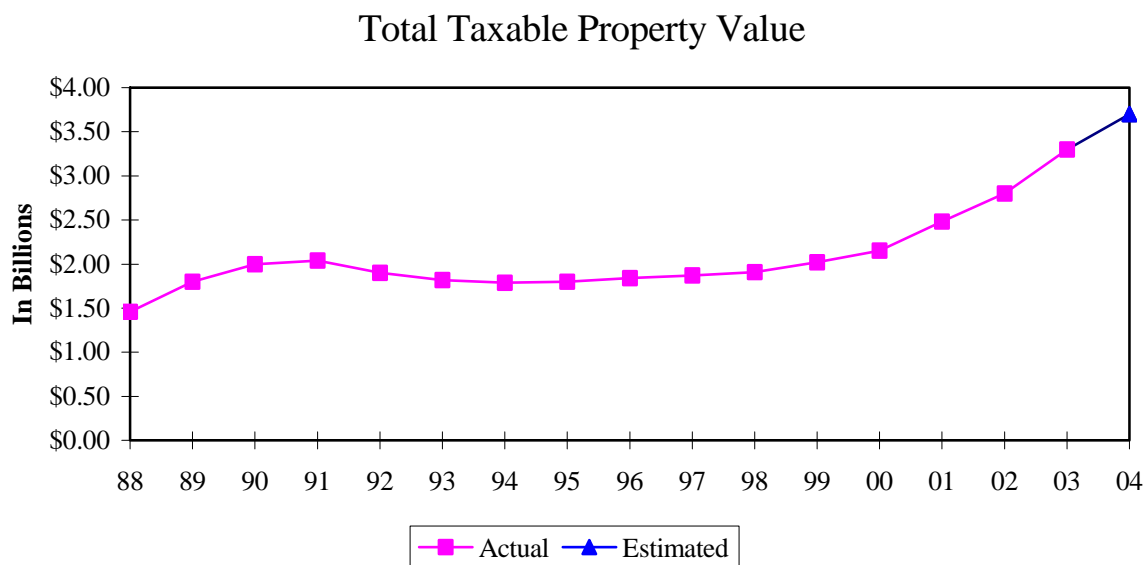
Commercial Real Estate Tax Base (2004)



Office Vacancies (1994 to 2003)



The 2004 total value of City residential and commercial properties before appeals — \$3,710,392,800 — exceeds last year's assessed value — \$3,318,050,400 — by \$392,342,400. As substantial new construction projects continue to be proposed, this value is expected to continue to increase, though at a slower pace. Real estate revenue, while positive in the near term, has been cyclical in the past. While no one can anticipate if or when that pattern may recur, given the City's dependence on this major revenue sector, it is prudent to keep it in mind in anticipating future expenditures.



2004 Total Taxable Property Value = \$3,710,392,800

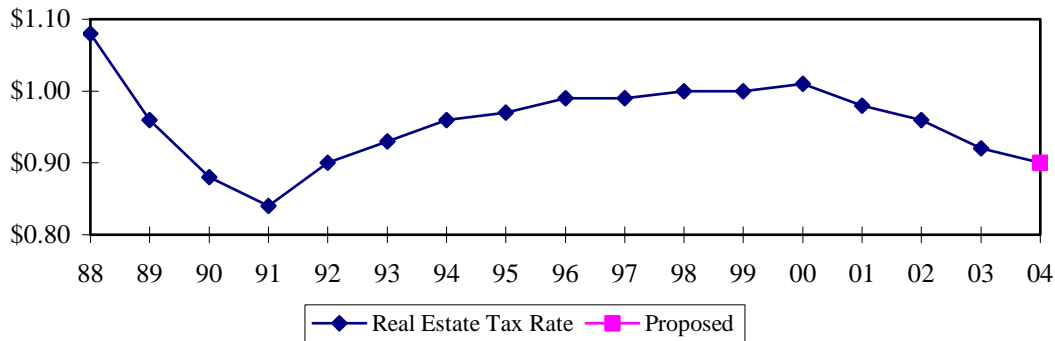
2003 Total Taxable Property Value = \$3,318,050,400

In accordance with Council guidance for maintaining services and programs, and because of increased assessed value, the real estate tax will decrease two cents per \$100 of assessed

*Real Property Tax Rate
Decreased Two Cents*

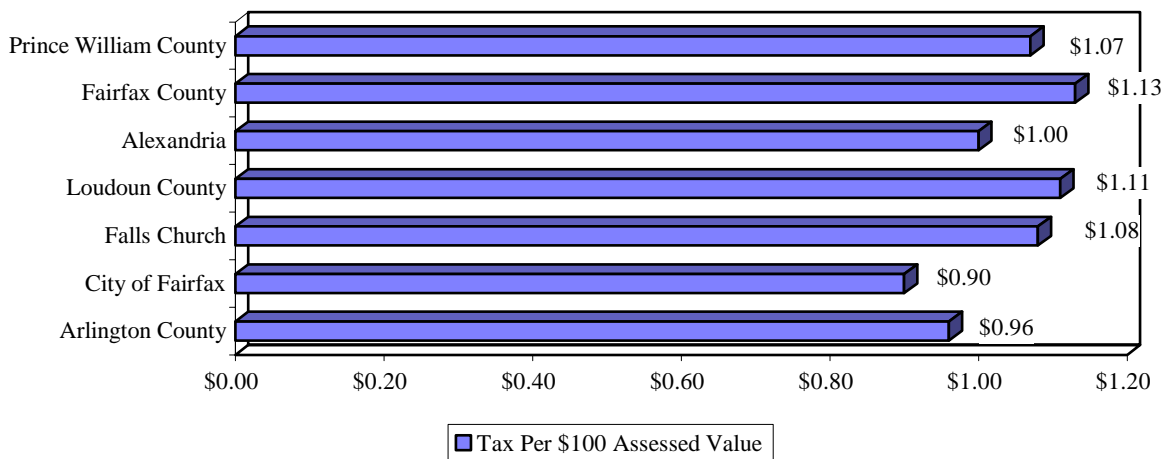
valuation, from \$.92 to \$.90 including continuing to dedicate three cents to the open space fund.

Real Estate Tax Rate 1988 to 2004



In comparing tax rates, it is important to keep in mind two factors often overlooked – levels of service vary from jurisdiction to jurisdiction and, for those residents of area towns, a town tax is levied in addition to the county tax. The City of Fairfax prides itself on its high level of services and low tax rate – the lowest in Northern Virginia. Two large towns in our immediate area – Vienna and Herndon – known for similar levels of community activity, levy real estate taxes of \$.27 and \$.28 per \$100 respectively, in addition to the Fairfax County tax, currently \$1.13 per \$100.

Area Jurisdiction Real Estate Tax Rates FY 03-04



Impact of Adopted Real Estate Tax Rate
on Property Owner's Tax Bill at Various Values
(Single Family and Townhouse)

2003 Assessment	2003 Taxes at \$.92 per \$100	2004 Assessment¹	2004 Taxes at \$.90 per \$100
\$ 280,000	\$ 2,576	\$ 314,440	\$ 2,830
400,000	3,680	449,200	4,043
550,000	5,060	617,650	5,559

¹ Average estimated increase of 12.3% used; each property is separately valued and may or may not see an increase of 12.3% in assessed value.

1 cent on the Tax Rate = \$388,294

FY04-05 Real Estate Tax Revenue = \$35,949,838*

FY03-04 Real Estate Tax Revenue = \$32,936,953*

*Includes Service district tax, delinquent payments, penalties and interest

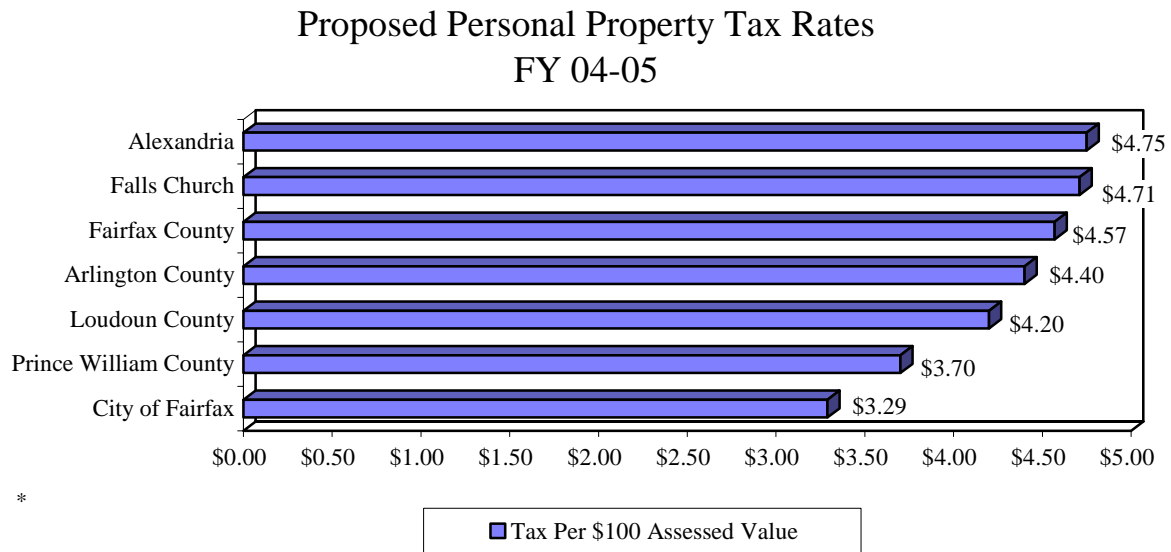
Personal Property Tax

The City's personal property tax rate is significantly lower than that of surrounding jurisdictions. No increase is budgeted in the rate of \$3.29 per \$100 of assessed valuation. The personal property tax amounts to 9.0 percent of General Fund revenue. As such, it is a significant revenue source for the City. For the past two years, personal property tax revenues have declined and been under budget, primarily due to declining values in used cars and over-optimistic revenue projections. It appears that those revenues have stabilized, but we need to monitor this closely.

Projected FY03-04 revenues are significantly lower than the \$7,760,000 originally budgeted. FY03-04 revenues are now projected at only \$7,060,000. Based on those figures, projected revenues in this category in FY04-05 are estimated at \$7,200,000.

At the current time, taxpayers are "reimbursed" by the state at a rate of 70 percent of the tax on up to the first \$20,000 of assessed value. While in most cases a disproportionate amount of money collected at local levels is disbursed to other areas of the state through means such as the composite index for education funding, in the case of personal property tax, a

disproportionately larger amount is paid to Northern Virginia, because there are more and higher value cars in this area.



FY04-05 Personal Property Tax Revenue = \$7,200,000*

FY03-04 Personal Property Tax Revenue = \$7,760,000*

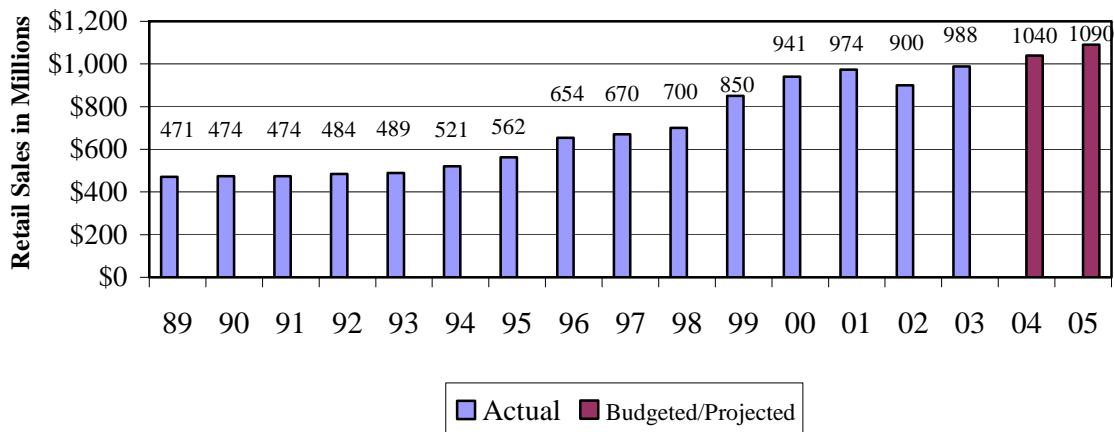
*Excludes delinquent payments, penalties and interest.

Local Sales and Use Tax

The local sales and use tax is one of the most important and highest revenue generators for the City; local sales and use tax revenue accounts for 12.6 percent of all General Fund revenues. For a number of years, the City has been the highest generator of per capita sales and use tax revenue in the state.

Revenue in FY03-04 is projected to be \$10,425,000, 6.9 percent over the amount budgeted. Revenue for FY04-05 is projected at \$10,900,000. Over 40 percent of sales and use tax revenues are in the food group category. Retail developments completed or under development in FY03-04 and additional retail planned for FY04-05 will help keep retail sales in the City at a high level. We continue to monitor city revenues from this source very carefully so that, should a downward trend begin, we will be aware of it immediately and make adjustments accordingly.

Retail Sales Growth
1989 to 2005



FY04-05 Sales and Use Tax Revenue = \$10,900,000

FY03-04 Sales and Use Tax Revenue = \$9,750,000

Meals Tax

This has been a very stable source of revenue for the City, increasing slightly every year at current rates. Meals tax revenue in FY04-05 is projected at \$2,080,000. No rate increase is budgeted for FY 04-05, leaving the rate unchanged at 2 percent. The 2004 General Assembly considered capping and/or requiring voter approval for any increase in local meals tax. While not enacted, attempts such as these to limit the flexibility of localities to determine this revenue remain a concern.

As the chart below indicates, several area jurisdictions also impose this tax and in most cases at a rate significantly higher than that of the City's.

Meals Tax Rates 2003

City/County/Town	Percent
City of Fairfax	2
Alexandria	3
Arlington	4
Fairfax Co.	N/A
Falls Church	4
Fredericksburg	4.5
Loudoun	N/A
Manassas	4
Manassas Park	4
Prince William	N/A
Spotsylvania	4
Stafford	4
Leesburg	3.5
Middleburg	3
Occoquan	1
Vienna	4
Warrenton	4

Source: Weldon Cooper Center

FY04-05 Meals Tax Revenue = \$2,080,000

FY03-04 Meals Tax Revenue = \$1,945,000

Transient Lodging Tax

The City's lodging tax rate, four percent, is in the mid-range for Northern Virginia. We are projecting revenues of \$430,000 for FY04-05, \$20,000 lower than originally projected in the FY03-04 budget. This reflects the continuing downturn in hotel revenue throughout the Washington DC area. This revenue will not increase until the tourism economy improves and additional hotel rooms become available as a result of City economic development efforts. Under the City's current charter, the lodging tax is at the maximum rate.

FY04-05 Lodging Tax Revenue = \$430,000

FY03-04 Lodging Tax Revenue = \$450,000

State Aid

Revenue from the state represents approximately 9.9 percent of total general fund revenues. This year, as has been widely reported, the state is facing significant revenue shortfalls and/or the possibility of tax restructuring. Depending on how this is resolved, localities may see reduced aid in a variety of programs, particularly in social services, courts, libraries, funding for police, reimbursement for constitutional and other officers, as well as direct shifting of some program costs to localities.

Direct State Aid Maintained

The City's share of state aid compared to that of other jurisdictions appears smaller because some of the amount of state aid received by the City in support of schools and the amount of social services is not shown because it is deducted from the amount of our contracts with Fairfax County. This influences the cost of City contracts for those services, particularly when the county makes a decision whether or not to make up state cuts with local dollars.

In FY04-05, we are estimating a total amount of state aid of \$8,607,493, an increase of \$871,730 over last year's budgeted amount. These numbers, however, are subject to change until the state's budget is finalized.

FY04-05 State Aid = \$8,607,493

FY03-04 State Aid = \$7,735,763

Utility Tax

This has been a very stable source of revenue for the City. Revenue in FY04-05 is projected at \$2,925,000, an increase of \$195,000 over FY03-04. This increase is wholly due to the utility tax to cell phones. Cell tax revenue is projected at \$250,000 in FY 03-04 and \$450,000 in FY 04-05.

As we had anticipated, extension of the utility tax to cell phones has helped to maintain this revenue source; as cellular service has grown, the number of land lines is diminishing.

Cell Tax Rates 2004

City/County/Town	Percent
Fauquier	10% of 1 st \$30
Fredericksburg	10% of 1 st \$30
Loudoun	9% of 1 st \$30
Manassas Park	10% of 1 st \$30
Prince William	10% of 1 st \$30
Spotsylvania	10% of 1 st \$30
Stafford	10% of 1 st \$30
Occoquan	10% of 1 st \$15
Warrenton	10% of 1 st \$30
City of Fairfax	10% of 1 st \$30

Source: Weldon Cooper Center

FY04-05 Utility Tax Revenue = \$2,925,000

FY03-04 Utility Tax Revenue = \$2,730,000

Cigarette Tax

The City's cigarette tax was raised in 2003 from 30 cents per package to 50 cents per package. FY 04-05 revenue, including the tax increase, is projected at \$877,250; in FY 03-04 estimated revenues totaled \$877,250, \$100,050 less than originally budgeted.

Although revenue did not increase as much in FY 03-04 as we initially projected, overall this revenue source has increased as a result of the increased rate. Additionally, apparently many retail chain stores set a price-per-pack regardless of jurisdiction effectively spreading the tax burden around.

FY04-05 Cigarette Tax = \$877,250

FY03-04 Cigarette Tax = \$977,300

Business License Tax

Business license taxes represent approximately 9.2 percent of general fund revenues. Business license tax revenue in FY04-05 is projected to total \$7,950,000, an increase of approximately 6 percent (\$450,000) over budgeted FY03-04 revenue. Actual business license receipts for FY03-04 now are projected to be \$300,000 above the amount budgeted in FY03-04. In estimating BPOL revenue for FY04-05, no rate changes have been made. As part of a disturbing trend, as with the meals and transient occupancy taxes, the General Assembly has been considering action to cap and/or curtail this local revenue source, although no legislation is expected to be adopted this year.

FY04-05 BPOL Revenue = \$7,950,000

FY03-04 BPOL Revenue = \$7,500,000

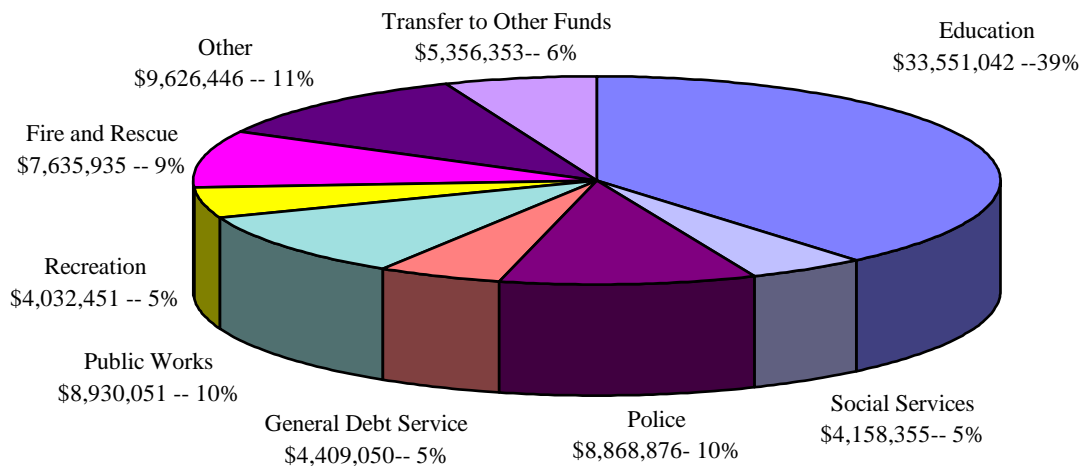
General Fund Expenditures

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Education.....	A-54 thru A-56
Community Services Board	A-57
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Compensation/Benefits/Insurance	A-61

Overview

GENERAL FUND MAJOR EXPENDITURE CATEGORIES TOTAL \$86,568,559

General Fund Expenditures by Category
FY04-05



Education

Costs related to the operation of the City's schools account for \$33,551,042, by far the largest General Fund expenditure (39 percent). Approximately 98 percent of these expenditures are not discretionary for the City, i.e. the tuition contract, and principal and interest payments on currently outstanding bond issues. While the costs for schools have increased dramatically in recent years, the 39 percent of the City's General Fund dedicated to schools remains less than that of most of our surrounding jurisdictions, which range from 36.5 percent in Arlington County to 62 percent in Loudoun County. As do all Northern Virginia school systems, the City funds a

far larger share of its school budget with local money (87 percent local funding) than do school systems in other areas of the state (statewide average of 50 percent local funding).

The school tuition contract for FY04-05 is budgeted at \$30,338,289, an increase of \$1,253,289 (4.3 percent) over what was budgeted in FY03-04. We are contractually obligated to pay for instructional costs based on a per student formula.

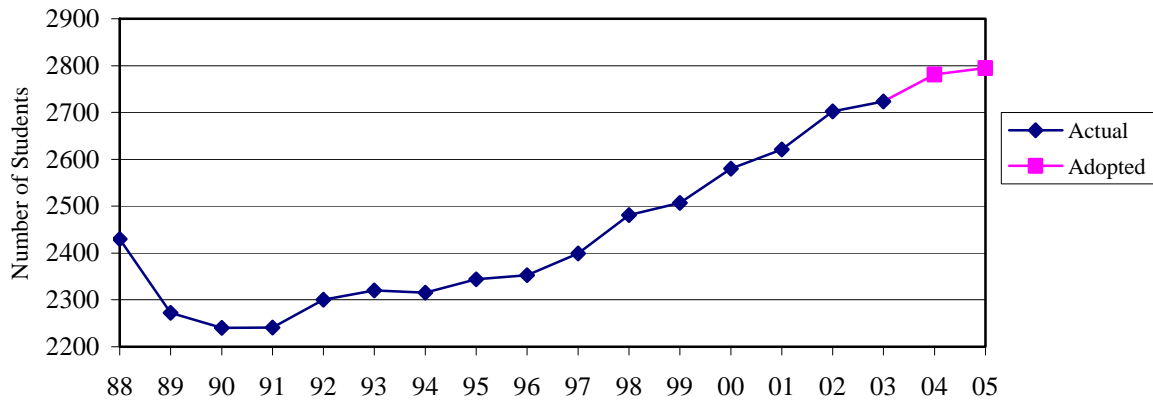
**City of Fairfax Tuition/Cost Per Pupil
FY89-90 to FY04-05**

Fiscal Year	Final Tuition Bill	Adjustments to Estimated Bill	# of Students	Cost per Pupil
04-05	\$ 30,338,389*		2,795*	\$ 10,893*
03-04	29,085,000*		2,781*	\$ 10,458*
02-03	26,534,379	\$ 815,621	2,723	9,745
01-02	25,337,421	422,579	2,702	9,377
00-01	23,965,003	150,550	2,621	9,143
99-00	22,533,885	33,885	2,580	8,734
98-99	20,351,513	498,487	2,507	8,118
97-98	19,593,688	1,293,688	2,481	7,897
96-97	17,915,653	322,189	2,399	7,468
95-96	16,561,902	(388,311)	2,353	7,039
94-95	16,502,570	504,211	2,344	7,040
93-94	15,537,630	(48,370)	2,315	6,712
92-93	4,824,589	(875,411)	2,320	6,390
91-92	15,397,042	(264,528)	2,300	6,694
90-91	15,289,709	(10,291)	2,241	6,823
89-90	14,446,404	(40,250)	2,241	6,446

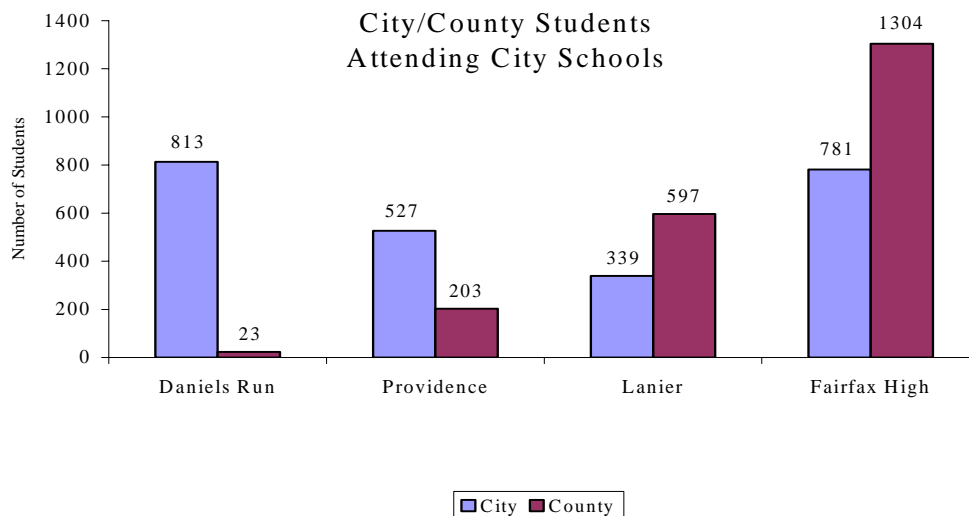
*estimate

In addition to higher county costs, City student enrollments are increasing, and that significantly contributes to higher tuition contract costs. As new residential construction continues and as families move into existing housing being vacated by households without school-age children, the numbers of City children attending City schools is expected to continue to increase.

Number of City-Resident Students Attending City Schools



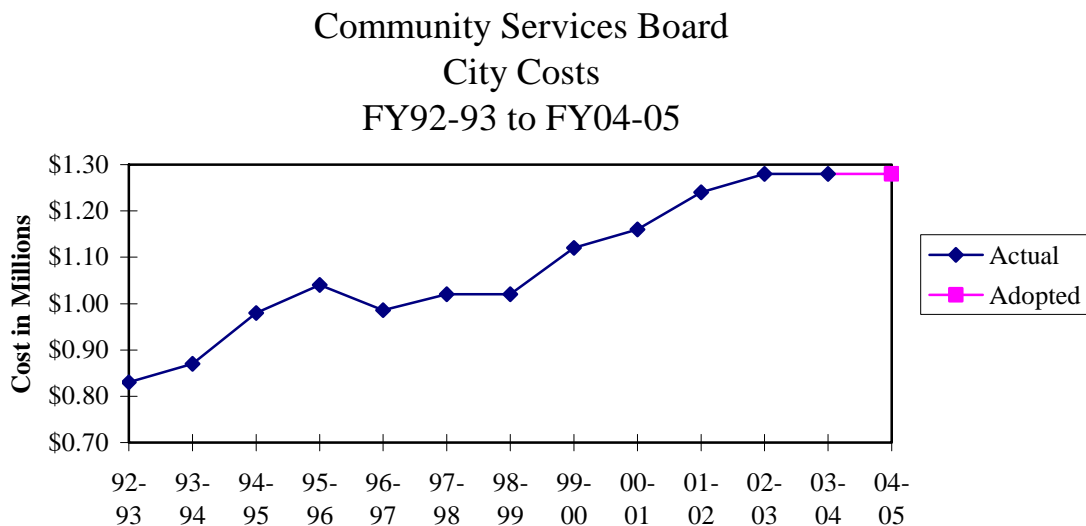
The City is planning for a November 2004 bond referendum for renovation of Lanier Middle and Fairfax High Schools. The current estimated cost for the architectural design for this project is \$2,625,000 and is being funded in advance of the bond referendum with a loan from the City's Water Fund. At the present time, it is anticipated that these costs will not be incorporated in the bond amount, as tuition reimbursement funds now being received from Fairfax County for county children attending these schools (over 62 percent county children in each) are applied toward paying off the design costs. In FY 04-05 the tuition reimbursement will total \$1,200,000. Once the bond is issued, this amount will help offset the debt service payments.



Community Services Board

There are no reductions in state funding to local community services boards known at this time, although the state's budget is not yet finalized. The City's share of funding for the CSB is calculated on a population-based percentage of local funding. Fairfax County has not yet publicized any budget reductions; however, the County may reduce its CSB funding. The City's share would then be reduced proportionately.

- FY04-05 funding is \$1,281,008; identical to FY03-04
- Continues existing population-ratio funding formula
- City share is approximately 2.18 percent of locally funded CSB budget



Contract Services

Expenses for county and regional service contracts make up 42.1 percent of the City's General Fund. Based on Fairfax County budgeting guidelines, non-school contracts with Fairfax County have been estimated to increase an average of 3 percent over the current year's estimated billing, although that may change as a result of finalization of Fairfax County's budget later this spring.

The City/County review of all non-school county contracts was completed earlier this year. That process did not result in significant changes to billing practices or City costs.

Cost of Contract Services

FY03-04 and FY04-05 Comparison

	FY03-04 Approved	FY04-05 Adopted
County School Tuition Contract	\$ 29,085,000	\$ 30,338,289
Other City-County Contracts		
Library Services	767,652	783,125
Joint Court Service	129,594	127,655
Juvenile and Domestic Court	460,009	458,576
Jail and Custody Service	589,270	375,165
Fire & Rescue – Suppression	150,000	150,000
Refuse Disposal	370,000	425,000
Extension County Agent	9,907	54,612
Health Department	667,421	776,498
Social Services		
School-Age Child Care	334,750	395,633
State Mandated Programs	571,399	667,469
Day Care Regulation	9,000	7,000
Child Care Subsidy	111,572	115,000
Regional Agencies		
Community Services Board	1,281,008	1,281,008
Council of Governments	12,468	13,120
Health Systems Agency	2,311	2,240
Area Agency on Aging	45,852	45,852
Legal Services of NoVa	18,062	18,965
NOVA Community College	2,178	2,167
NoVa Regional Commission	8,982	11,070
NoVa Regional Park Authority	39,024	40,000
NoVa Transportation Comm.	5,973	6,301
Volunteer Center	1,200	5,000
Fastran	15,000	12,000
Community Health Network	56,704	50,000
Dental Clinic	1,500	1,500
Total	\$ 34,745,836	\$ 36,163,245

Public Works

- Retains current level of service
- Increases expenditures by \$683,707 (8.3 percent)
- Most increases in supplies and contracts are due to increased fuel costs and other inflation factors
- Increased plantings, fleet maintenance and additional workload from new residences and special events continue to be absorbed

FY04-05 Public Works = \$8,930,051

Police

- Continues all police activities at current levels, with additional emphasis requested for traffic enforcement activities
- Police service calls relatively stable; traffic-related issues have increased
- Reclassification of 22 positions (\$86,292) to address issues of recruitment and retention
- Shift differential pay for night shift workers (\$.70 per hour)
- Aggressively pursuing grant funding

FY04-05 Police Department = \$8,868,876

Fire and Rescue Services

- Continues all fire and rescue activities at current levels; Department responds to twice as many EMS calls as fire/suppression calls
- Reclassification of 22 positions (\$83,263) to address issues of recruitment and retention
- ALS certification incentive pay of \$4,200 each for 39 personnel to retain members with this skill level

- Volunteers fund significant capital equipment items; consider funding of public safety training structure
 - Continues incentive award program to encourage volunteer program
 - Funds new capital equipment for suppression, EMS and WMD/emergency preparedness
-

FY04-05 Fire and Rescue = \$7,635,935

Parks and Recreation

- Maintains existing recreation programs and existing cost recovery ratios on fee-supported programs; no enhancements to Old Town Hall
 - \$125,000 funding included for 2005 Bicentennial Celebration; additional funds will be needed in FY 05-06
 - Across-the-board increase in fees for summer recreation programs; program costs increased; program to be self-supporting
 - Senior and teen program number of participants doubles
 - Costs for special events continue to increase
 - Increased funds for maintenance of trails and athletic fields; costs up \$141,609 due to increased personnel costs and new field at Providence Park (costs \$23,000 per field per year for sod) and additional sodding required for two fields at Draper Drive park
-

FY04-05 Parks & Recreation = \$3,663,360

Historic Resources

- Office of Historic Resources funding increased 330 percent in three years through FY 03-04
 - Civil War weekend not scheduled in FY 04-05 due to anticipated construction at Blenheim
 - Blenheim improvements to be funded through bonding or line of credit
 - Additional funding included for development of new museum exhibit and architectural survey
 - Requested additional position for advance planning for Blenheim not included
-

FY04-05 Historic Resources = \$369,091

Information Technology

- Funds continuing expansion of web applications
- Continues but at slower rate replacement of microcomputers and printers
- Funds document management project, continues GIS development, implementation of City's INET fiber network and data integration project
- Funding for two positions to address additional workload not included; contract services increase \$89,535

FY04-05 Information Technology = \$1,417,733

Compensation/Benefits/Insurance

- Per Council guidelines to maintain parity, 2.4 percent market adjustment included
- Significant adjustments in public safety compensation to address recruitment and retention of police and fire personnel (\$362,355)
- Health care costs increase despite cost containment measures; adopted budget increases by 25 percent (\$454,541); employees' share also rises
- City insurance costs for buildings, property and liability increase 32.5 percent (\$110,467)
- City payment for Virginia Retirement System (VRS) for City employees increases \$1,152,826 per adjusted contribution rate to be in effect for the next two years
- City's share of City retirement costs paid by earnings in retirement investments; no City payment required for 6th consecutive year; employee rate increased to pay for enhancements to City plan
- Stipend up to \$175 per month based on longevity toward retiree health insurance costs for personnel retiring July 1, 2004 or later; not available to current retirees (\$12,000)

2.4 Percent Market Adjustment = \$509,127

VRS Payment Increase = \$1,152,826

Health Insurance Premium Increase = \$454,541

Capital Fund

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Environment	A-69
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Capital Fund

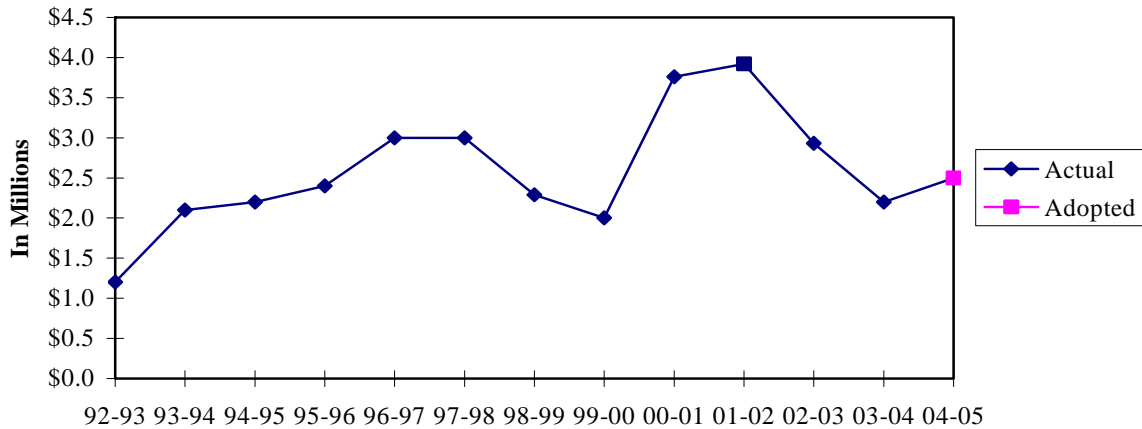
The Capital Improvement Program for FY04-05, as adopted, totals \$11,844,9880; of this total, the General Fund contributes \$2,513,765. The City's Capital Improvement Program is designed to protect the City's investments in capital and operating assets through timely and adequate maintenance and replacement of those assets. It also is a planning tool that links the City's long-range Comprehensive Plan with the physical development of the City. By identifying projects and needs several years into the future, the City accomplishes several objectives:

- Identified long-term objectives can be scheduled and met
- Adequate time is allowed to plan, design, acquire land and negotiate agreements
- Major purchases can be scheduled
- Coordination with the operating budget is maximized

While we must evaluate CIP projects in relation to the budget as a whole, giving lower priority to infrastructure projects – particularly in the area of maintenance – is a short-term solution with long-term consequences. It is important to protect all of the City's investments through timely and adequate maintenance and replacement of assets.

As the funding history of the CIP shown below illustrates, the City occasionally lowers its general fund commitment to the CIP in order to balance the budget in other areas. For FY 04-05, projects totaling \$1,110,000 have been deferred to future years. In adopting its financial policies, the City Council has set a goal of a transfer of at least five percent of General Fund expenditures to the Capital Fund. That goal is achieved in the adopted budget for FY04-05 with the inclusion of CIP projects supported by debt financing.

Capital Fund
General Fund Transfer
FY92-93 to FY04-05



Of the \$11,844,980 budgeted for FY04-05, \$2,513,765 will be funded from the General Fund, an increase of approximately \$305,909 from FY03-04. In addition to the FY04-05 transfer, the General Fund will fund CIP projects totaling \$2,349,000 with debt financing.

In addition to the General Fund, funding for the FY04-05 Capital Fund comes from utility funds, the federal and state governments, the stormwater fund, the open space fund, the cable capital equipment fund and debt financing.

Capital Fund
FY03-04 and FY04-05 Comparison

	FY03-04	FY04-05	Percent Change
Schools	\$ 2,625,040	\$ 0	100
General Government	2,596,298	2,977,015	15
Recreation	8,755,000*	904,805	(90)
Environment	2,262,460	3,564,160	58
Transportation	1,442,500	4,399,000	205
Total	\$ 17,681,298	\$ 11,844,980	(33)

*Includes open space acquisitions.

Implementing the Comprehensive Plan

The capital improvement projects budgeted for FY04-05 helps the City achieve the goals of the Comprehensive Plan in a number of areas.

Economy: Cultivate a diverse economy within the City that capitalizes on the City's assets, enhances its small-town character, and expands and strengthens the City's tax base by improving the appearance of public properties and rights of way in conformance with the Community Appearance Plan.

- | | |
|---|--|
| <ul style="list-style-type: none">• Brick Sidewalk Repair• Curb, Gutter & Sidewalk Repairs• Planting and Beautification | <ul style="list-style-type: none">• Dead-end Street Improvements• Sidewalk Improvements• Street Lights |
|---|--|

Environment: Enhance the quality of life through policies and programs that respect the natural environment and protect the City's citizens from environmental hazards.

- | | |
|---|--|
| <ul style="list-style-type: none">• Stream Restoration• Northern Virginia Regional Park Authority• Culvert Repair | <ul style="list-style-type: none">• Beaverdam Reservoir• Neighborhood Drainage Projects |
|---|--|

Public Facilities and Services: Provide well-maintained facilities and superior services for City residents and businesses.

- | | |
|--|---|
| <ul style="list-style-type: none">• Northern Virginia Community College• Northern Virginia Regional Park Auth.• Cable TV Equipment• Museum Maintenance• Parks Playground Equipment• Parks Maintenance• Sewer Creek Crossing Rehab.• Vehicle & Equipment Replacement• Storm Drainage Maintenance• Water Main Asphalt Repairs• Neighborhood Drainage Projects• Brick Sidewalk Repair• Curb, Gutter & Sidewalk Repair• Street Repaving• Property Yard Maintenance• Property Yard Improvements• Bus Maintenance Equip. Replacement• Green Acres School Maintenance• Sewer Lining | <ul style="list-style-type: none">• Sewer Manhole Replacement• Old Town Hall Maintenance• Sewer Vehicle Replacement• Beaverdam Reservoir• Water Transmission Main Rehab.• Water Main Replacement• Water Plant Equipment Replacement• Water Plant Raw Water Station• Water Plant Renovations• Water Plant Solids Handling• Water Tank Maintenance Program• Vehicle & Equipment Replacement• Fire Defibrillators• Police Information Technology• Open Space Acquisitions• Daniels Run Bridge Replacement• Fire Station #33 Maintenance• Public Safety Training Structure |
|--|---|

Community Appearance: Pursue an attractive, distinctive image for the City through improving the appearance of the major commercial corridors, a comprehensive planting and

landscaping plan and facilitating the transformation of Old Town into an attractive, inviting pedestrian – oriented environment.

- | | |
|--|--|
| <ul style="list-style-type: none"> • Museum Maintenance • Sidewalk Improvements • Brick Sidewalk Repair • Open Space Acquisition | <ul style="list-style-type: none"> • Curb, Gutter and Sidewalk Repairs • Planting and Beautification • Dead End Street Improvements |
|--|--|

Historic and Cultural Resources: Protect and enhance the City’s historic and cultural resources for present and future residents.

- | | |
|--|---|
| <ul style="list-style-type: none"> • Museum Maintenance • Grandma’s Cottage • Fairfax History Exhibition • Blenheim Improvements | <ul style="list-style-type: none"> • Ratcliffe Cemetery Restoration • Ratcliffe-Allison House Maintenance |
|--|---|

Transportation: Facilitate safe and convenient vehicular, pedestrian and bicycle circulation within the City, while minimizing the adverse impacts of through-traffic and automobile pollution.

- | | |
|--|--|
| <ul style="list-style-type: none"> • Traffic Counter Stations/Sensors • Curb, Gutter and Sidewalk Repairs • Sidewalk Improvements • Neighborhood Traffic Control • Brick Sidewalk Repair • Refurbish Existing Traffic Signals/Signs • Rt. 123 Bridge Painting • George Mason Boulevard • Street Lights • Northfax Highway/Sewer Improvements | <ul style="list-style-type: none"> • Auto Bus Stop Annunciators • Traffic Signal Replacement • Route 50 Bridge Testing • Recessed Pavement Markers • Traffic Sensor Installation • Street Paving • Pickett Road Bridge • Lighted Crosswalks • Rt. 29/50 Spot Improvements |
|--|--|

Sources of Funding FY04-05 Capital Fund

General Fund Transfer	\$ 2,513,765
General Fund Debt Financing	2,349,000
State and Federal	2,896,000
Northern Virginia Transportation Authority	380,000
Utility Funds	2,804,160
Stormwater Fund	270,000
Cable Capital Grant	112,000
Private Funds	520,055
Total	\$ 11,844,980

Schools

This CIP category provides funding for capital improvements to schools and school facilities. Projects are funded from the General Fund and the Water Fund.

Decision on specific projects pending bond referendum for Fairfax High and Lanier Middle Schools, November 2004.

FY04-05 Schools = \$0

General Government

This CIP category provides funding for improvements to City buildings and new purchases or replacement of vehicles and equipment. Projects are funded from the General Fund, the federal government, and the cable capital grant.

Blenheim Improvements	\$ 1,454,000
Grandma's Cottage Improvements	200,000
Ratcliffe-Allison House Maintenance	15,000
Ratcliffe Cemetery	30,000
Cable TV Equipment	112,000
Cue Bus Trailer	100,000
Optical Sensors/Traffic Lights	29,260
Fire Station #33 Maintenance	65,000
Public Safety Training Structure	399,055
Police Records Management	100,000
Property Yard Maintenance	157,000
Vehicle & Equipment Replacement	135,000
Police Vehicle Replacement	130,000
Police Information Technology	28,300
No.VA. Comm. College	22,400

FY04-05 General Government = \$2,977,015

Recreation

This CIP category funds improvements to all parks, recreational facilities and open spaces; projects are funded from the General Fund.

Open Space Acquisition	\$650,000
No.VA. Reg. Park Auth.	49,805
Planting & Beautification	35,000
Dead End Street Improvements	70,000
Daniels Run Bridge Replacement	50,000
Park Equipment	50,000

FY04-05 Recreation = \$904,805

Environment

This CIP category funds improvements to the City's water, sanitary sewer and stormwater systems. Projects are funded from the Water, Sewer, General and Stormwater Funds.

Park Rd. Drainage Improvements	\$ 40,000
Storm Drainage Maintenance	25,000
Neighborhood Drainage Project	210,000
Storm Drainage Structures	165,000
Culvert Stream Repair/Plantation Pkwy	50,000
Stream/Stormwater Restoration	270,000
Sewer Pumping Station	350,000
Sewer Creek Crossing Rehab.	30,000
Sewer Lining	138,600
Sewer Trunk Line Eval.	250,000
Sewer Manhole Rehabilitation	32,060
Sewer Vehicle Replacement	125,000
Water Transmission Main Rehab.	150,000
Beaverdam Reservoir	250,000
Water Main Asphalt Repairs	125,000
Water Main Replacement	493,500
Water Plant Equip. Replacement	324,000
Water Plant Raw Water Pump Station	65,000
Water Plant Renovations	40,000
Water Plant Solids Handling	75,000
Water Tank Maintenance Program	356,000

FY04-05 Environment = \$3,564,160

Transportation

This CIP category funds road and traffic signal improvements and maintenance. Projects are funded from federal and state funds and the General Fund.

Rt. 123 Bridge Painting	\$ 40,000
Pickett Road Bridge	25,000
Bridge Over Accotink Repairs	80,000
Lighted Crosswalks	55,000
George Mason Blvd.	1,000,000
Brick Sidewalk Maintenance	45,000
Sidewalk Improvements	75,000
Curb, Gutter & Sidewalk Maintenance	180,000
Recessed Pavement Markers	25,000
Remote Traffic Counters	45,000
Traffic Signal Communication Cable	25,000
CUE/GMU Business Directory	65,000
CUE Bus Accessibility	100,000
CUE Bus Shelter	100,000
CUE Bus Replacements	185,000
Auto Bus Stop Annunciators	80,000
Traffic Sensors Install.	40,000
Northfax Highway/Sewer Improvements	999,000
Rt. 29/50 Spot Improvements	500,000
Street Lights	25,000
Refurbish Existing Traffic Signals	40,000
Street Repaving Program	640,000
Neighborhood Traffic Control	30,000

FY04-05 Transportation = \$4,399,000

Utility Enterprise Funds

Sewer Fund..... A-72

Water Fund.....A-73 thru A-74

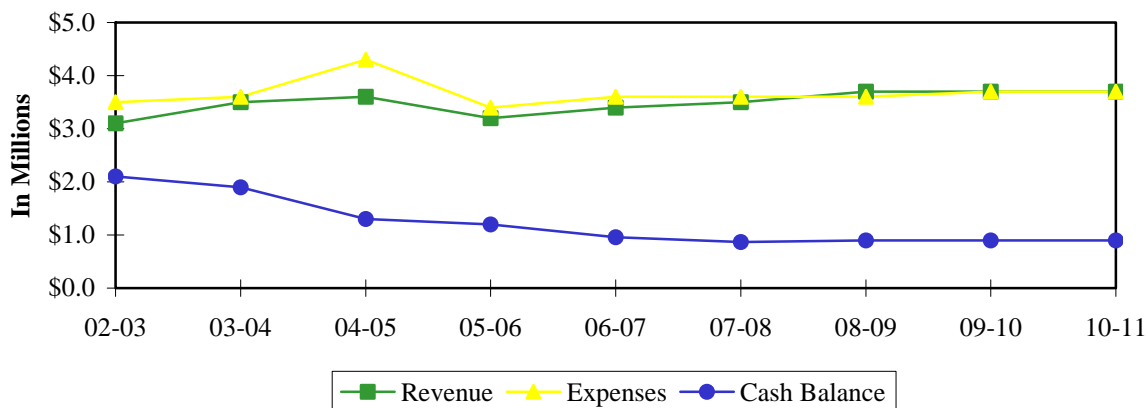
Sewer Fund

The City's sewer fund remains financially sound. Sewer cash reserves are projected at \$1,358,084 in FY04-05 and should stabilize at approximately \$1,000,000 within the next few years. In terms of system expenditures, treatment costs have modestly increased, and capital costs have increased substantially. We anticipate rate increases in the coming years, as connection fee revenue will be reduced when construction slows down.

In FY04-05, we budgeted the following:

- Water rate increase results in corresponding increase in sewer rate
- No increase connection in fees; due to continued construction, revenues from connection fees increase
- Modest increase in sewage treatment costs, up \$97,099 to \$2,039,075
- Total CIP projects of \$925,660; include continuation of sewer relining, rehabilitation of exposed sewer lines at stream crossings, sewer manhole and pumping station replacement, and evaluation of trunk main system to assess rehabilitation needs

Sewer Fund Revenue, Expenditures, Cash Balance
FY02-03 to FY10-11



FY04-05 Sewer Fund Revenues = \$3,632,234

FY04-05 Sewer Fund Expenditures = \$4,358,313

Water Fund

The City's water system continues to face challenges due to its small size, limited revenue growth opportunities and age. Based on a comprehensive study of the water treatment plant and reservoirs, this year a number of capital projects are being initiated as part of a long-range master plan. The City's agreement with Loudoun County also expires in 2007. A consultant has been retained to assist the City in positioning itself for upcoming negotiations with Loudoun County regarding any expansion in capacity and future rates.

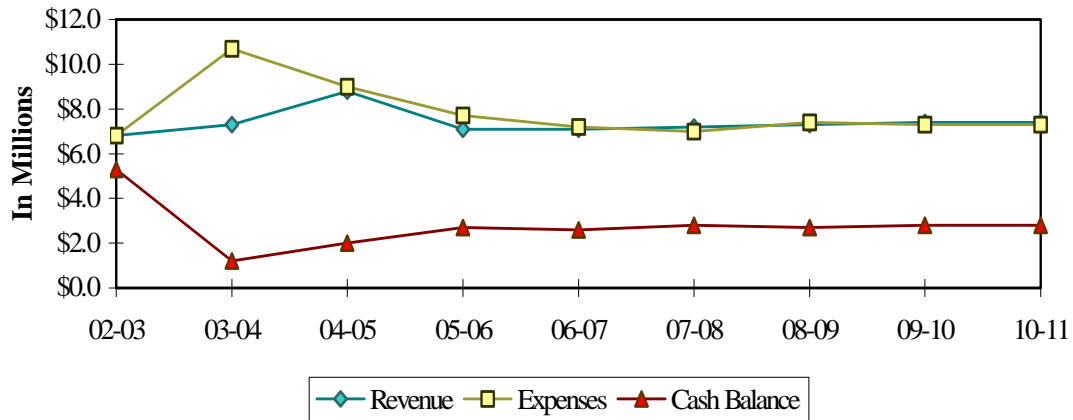
As has been projected for a number of years, in FY 04-05 a 5 percent rate increase is necessary to balance revenues with programmed expenditures and also maintain a reasonable cash balance in the Water Fund. Both of these factors are important in maintaining the City's favorable bond rating as well as the financial integrity and long-term stability of the system.

*Water Rates Increase 5%;
City's Rates are Next to
Lowest in the Area*

The FY 04-05 Water Fund budget includes the following:

- 5% increase in water rates; despite increase City rates remain next to lowest in area jurisdictions and do not include the summer peak usage charge levied by other systems.
- No increase in connection fees; due to continued construction, fees decrease to \$449,507.
- Retail sales increase to \$5,026,696 and wholesale sales increase to \$2,052,045, up 8 percent over FY 03-04
- Total CIP projects of \$1,878,500; projects include transmission main rehabilitation, construction at Beaver Dam Reservoir, water main replacement, upgrades and system improvements at the water treatment plant and system infrastructure maintenance.
- Two additional positions at the water treatment plant to conform with federal OSHA regulations regarding maintenance and operations; will allow more preventive maintenance and reduce overtime expenditures.
- An outstanding loan for school renovation design; the loan disbursement is not reflected in the system's cash balance as it is scheduled to be repaid through bond proceeds.

Water Fund Revenue, Expenses, Cash Balance FY02-03 to FY10-11



2004 Residential Water/Sewer Bill Comparison (for 20,000 gallons per quarter)

Jurisdiction	Cost
Prince William County	\$ 137
Vienna	130
Town of Leesburg	126
City of Manassas	125
Loudoun County	120
Herndon	119
City of Fairfax	114
Fairfax County	94

Note: The above water systems other than the City of Fairfax also charge a higher Rate during summer/peak usage times; the City's water rate remains the same year round.

FY04-05 Water Fund Revenues = \$8,820,288

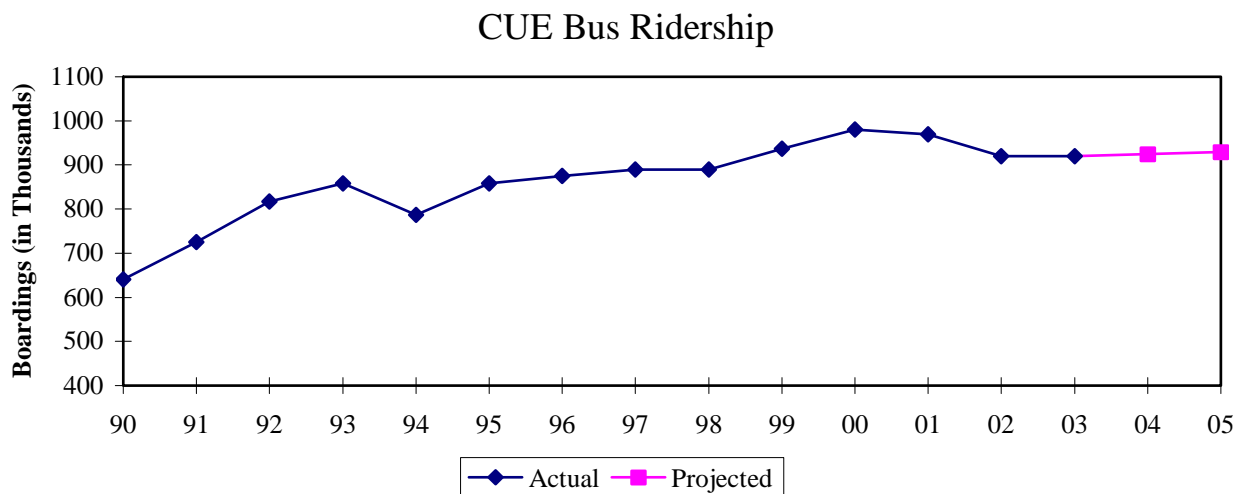
FY04-05 Water Fund Expenditures = \$9,022,463

Transit Fund

The City/University/Energysaver (CUE) bus system provides an alternative transportation mode for City and area residents and George Mason University (GMU) students throughout the City and from GMU and Metro. The City has operated the CUE system since 1985 and provides 12 buses on a fixed route system traveling 513,000 vehicle miles during 43,000 hours of operation each year.

In recent years, system costs have increased more rapidly than revenues, resulting in increasing General Fund support. In FY03-04, the City increased the level of its transfer from funds in its account at the Northern Virginia Transportation Commission to try to stabilize the General Fund subsidy. In FY03-04, \$999,785 was budgeted to be transferred from the General Fund to the Transit Fund. In FY04-05, we are budgeting a General Fund transfer of \$1,287,073.

Last year, the City also renegotiated the amount of subsidy provided by GMU. Our goal is to continue to move the university payment closer to the actual cost of serving the university.



Revenues

- \$ 350,000 GMU, per contract
- \$1,083,000 NVTC, down \$13,403 from FY 03-04
- \$ 230,000 Farebox (reflecting lower FY 03-04 collections than budgeted)
 - 920,000 ridership in 2003
 - 925,000 ridership projected for 2004
 - 930,000 ridership projected for 2005

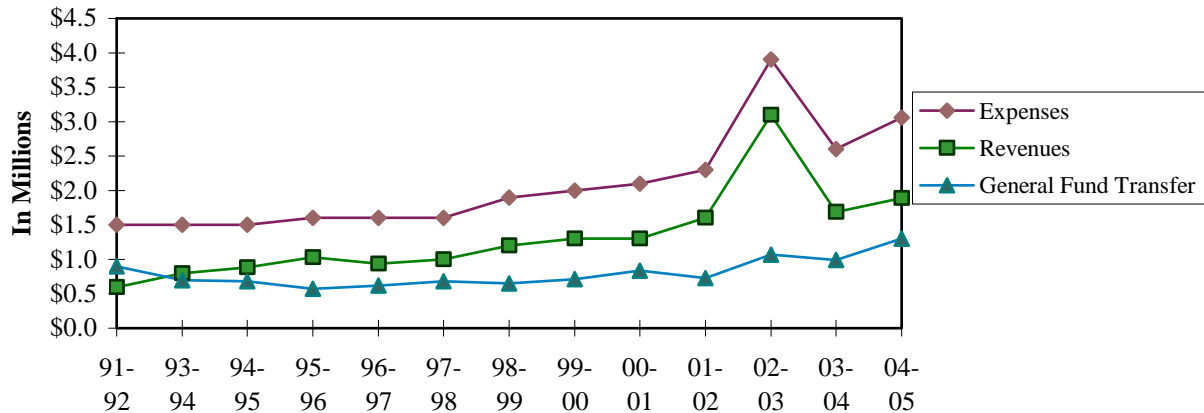
Expenses

- Operating costs slightly increase due to increased personnel and motor pool costs
- Capital Funds (\$80,000) for six luminator stop annunciator upgrades for six older buses to make system compatible for all 12 buses
- Future issue if service hours or service routes expanded

FY04-05 Transit Fund Revenues = \$1,842,800

FY04-05 Transit Fund Expenditures = \$3,129,873

Transit Fund Revenues, Expenditures,
General Fund Transfer
FY91-92 to FY04-05



FY04-05 General Fund Transfer = \$1,287,073

Conclusion

The area that now comprises the City of Fairfax was first settled in the early –to– mid 1700’s. Incorporated in 1805 as the Town of Providence, in 1961 it became an independent City. In the face of regional influences and other strong pressures, the City of Fairfax seeks to protect and enhance its unique heritage, identity and distinctive character as it approaches its bicentennial in 2005. The adopted budget allows the City to meet the continuing high quality service demands of the community and address necessary infrastructure maintenance and improvement projects, while at the same time begin to plan for anticipated significant, large scale project expenditures for protection of neighborhoods and historic resources, increases in open space, redevelopment of Old Town and the Lee Highway corridor and renovation of Lanier Middle and Fairfax High Schools.

Achieving this balanced budget has not been an easy task. Not all projects requested by various city departments have been included for funding. While real estate revenues continue to grow, the reality is that revenue growth falls short of our ever-increasing expenditure demands. School expenditures, in particular, can be expected to continue to grow, as will demands for everything from improved public facilities to rising costs for services to many special groups including children, families, seniors, and people of all ages with physical limitations. Much of our spending is non-discretionary in nature, and this problem is compounded by a state fiscal picture that remains bleak with additional cuts to local government always a possibility.

The City’s future will be determined by the choices we make today. We need to ensure that we continue to follow the financial policies we have set for ourselves – living within our means, maintaining a strong fund balance, carefully choosing those new initiatives and programs we wish to offer our citizens. I am confident that the future is a bright one for the City; that we will continue delivering the quality public services that the City is known for in the most cost-effective and efficient manner, while at the same time securing our financial future through disciplined analysis and fiscally prudent choices.

Acknowledgments

The budget is the product of an intensive effort by staff in all City departments. In particular I want to express my appreciation to David Hodgkins, Director of Finance, who has principal responsibility for the preparation of this document, and Vivian Baltz, Assistant City Manager. Others who contributed significantly to the preparation and printing include Loraine Bauer, Sherry Hamlor and Mary Lou Umbarger. Additional thanks go to each of the Department Directors, Constitutional Officers and every employee who participated in finalizing materials for Council's deliberation.

Budget Information

Understanding the Budget..... A-84 thru A-88

Glossary of Budget Terms A-89 thru A-95

Understanding the Budget

The City's budget is the blueprint for the financial and policy decisions that the City will implement during each fiscal year. The budget is the single most important document we have for establishing control over the direction of change and determining the future; it lays the groundwork for what we hope will be our community's accomplishments in the future.

Within the pages of this document, you will find:

- | | |
|-------------------------------------|--|
| • A fiscal plan | • A long range planning guide |
| • Revenue and expenditure summaries | • A management tool to ensure financial control |
| • Policy statement | • Indicators to ensure accountability and evaluate performance |
| • Goals and objectives | |
| • An annual operating program | |

Budget Preparation Process

Throughout the year, revenues and expenditures are monitored to enable the City to measure actual income and expenses against those projected in the budget.

The formative stage of every budget begins in the fall. City Council sets guidelines for the budget in November. These guidelines provide the framework for developing the new budget. Requests from departments and City offices are reviewed and evaluated for priority and, based on estimated revenues, funding is requested by the City Manager for those programs and services required to maintain an essential level of service or provide for enhancements to programs as identified by City Council. Revenue estimates are derived from a review of current and projected economic indicators, current and proposed federal and state legislation, knowledge of future events in the City and review of historic trends. By law, local government budgets must be balanced; i.e. expenditures may not exceed revenues.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and forwarded to the Planning Commission for public hearing and

evaluation. The Planning Commission holds a public hearing on the CIP and issues a memorandum to the City Council with recommendations and suggestions. The City Council holds a least one public hearing on the CIP and defers action until adoption of the operating and capital budgets in April. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources. A capital budget (one year of the proposed CIP) is included in the operating budget. Both together become the proposed budget.

Once presented to Council, Council reviews the proposed budget and a minimum of two public hearings are held to provide the public with an opportunity to comment to ensure that the budget is responsive to citizen needs. After careful deliberation, the proposed budget, as modified for additions and deletions, is proposed by City Council as the approved budget.

The budget, once approved, becomes a legally binding document. The budget can only be amended by the City Council after proper notice and a public hearing.

Review Schedule

The following dates are scheduled for City Council review and approval of the FY04-05 budget. Additional meetings may be scheduled.

December 1, 2003	Planning Commission Review of CIP
December 8, 2003	Planning Commission Public Hearing and Action on CIP
March 9, 2004	Presentation of the Proposed Budget by the City Manager
March 16, 2004	Work Session
March 17, 2004	Work Session
March 23, 2004	Public Hearing on Budget and CIP
March 30, 2004	Budget Outreach Meeting
April 6, 2004	Work Session
April 13, 2004	Budget Adoption (Operating and Capital)

Organization of the Budget

The City's financial operations are budgeted and accounted for in a number of funds. Fiduciary funds (reported in the audited financial statements) are not included.

A fund is a separate accounting unit. Separate funds that have been established by the City include the following:

General Fund — Used to account for all general operating expenditures and revenues, this is the City's largest fund. Revenues in the general fund primarily are from property taxes, sales tax, the business license tax and state aid.

Capital Fund — Each year, the City adopts a five-year Capital Improvement Program (CIP) that serves as a blueprint for the long-term physical improvements that the City wishes to make. The Capital Fund is funded through a fund transfer from the general, water and sewer funds, state aid and bond issues. The current year CIP is proposed as part of the annual budget.

Stormwater Fund — The stormwater fund was established to carry out major stormwater projects. It is funded on an as-needed basis by one or two cents on the real estate rate, but has not received set-aside funding for several years. This is a separate Capital Fund.

Cable Grant Fund — This fund receives its revenue from a 3 percent cable television fee. The revenue can only be used for cable television equipment. This is a separate Capital Fund.

Open Space Fund – The open space fund was established to fund acquisition of open space and parkland in the City. It is funded on an annual basis by up to five cents on the real estate tax rate for five years. This is a separate Capital Fund.

Old Town Service District Fund – This fund was established to fund the costs of the proposed Old Town development projects. Old Town Service District special assessment taxes are being transferred into this fund in accordance with City Council Ordinance. This is a separate Capital Fund.

Utility Funds — Sewer and water services are accounted for in the utility funds. The sewer fund and water fund are enterprise funds. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

Transit Fund — The transit fund is used to account for operations of the City's CUE bus. While set up as an enterprise fund, a transfer of money from the general fund into the transit fund covers a portion of the expenses of this fund.

The budgets of the general and capital funds (including Stormwater, Open Space, Old Town Service District and Cable Grant) utilize the modified accrual basis of accounting under which revenues are recorded when measurable and available to finance operations during the year. Expenditures, except for interest, are recorded when the liability is incurred. Interest is recorded when due. Budgets of the utility funds and transit fund utilize the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is

incurred. The budget bases of accounting do not differ from those used for financial reporting (all funds).

Glossary

Accrual Basis of Accounting – a method of accounting that recognizes the financial effect of transactions, events and inter-fund activities when they occur, regardless of the timing of related cash flows.

Proposed Budget – the final operating and capital budget approved by the City Council after public hearings and amendments to the proposed budget, if applicable; becomes legal guidance to the City management and departments for spending levels.

Advisory Referendum – a measure voted on by the general public in an election; refers to a specific question posed on a ballot which is non-binding and used to provide guidance to the elected representatives.

ALS – advanced life support.

Appropriation – an authorization made by the City Council that permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are usually made for fixed amounts and are granted for a one-year period.

Assessed Value – the fair market value placed upon real and personal property by the City as the basis for levying property taxes.

Assessment/Sales Ratio – assessed value for each sale of real property divided by its selling price; used to determine if real property is assessed within a reasonable range of fair market value. The Commonwealth of Virginia requires that real property be assessed at 100% of fair market value. An acceptable assessment/sales ratio percentage is 70% or higher.

Basis of Accounting – the timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes.

Blenheim – generally refers to the 12-acre property and house (c. 1858) purchased by the City for historic preservation and possible development of a museum/interpretive center; Blenheim is listed on the National Register of Historic Places and significant because it contains the nation's largest and best-preserved collection of Civil War soldier graffiti.

BLS – basic life support.

Bond Debt Instrument – a written promise to pay a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal. Bonds are typically used for long-term debt to pay for specific capital expenditures.

Bond Ratings – a rating of quality given on any given bond offering as determined by an independent agency in the business of rating such offerings.

BPOL Tax – business license or gross receipts tax, this item taxes the total revenues of a business.

Budget – a plan of financial operation including an estimate of proposed means of financing them (revenue estimates). The term also sometimes is used to denote the officially approved expenditure ceilings under which the City and its departments operate.

Budget Calendar – the schedule of key dates or milestones that the City follows in the preparation and adoption of the budget.

BZA – Board of Zoning Appeals.

Capital Expenditures – Major projects that are generally nonrecurring, i.e. major construction, major equipment/vehicle purchases and land purchases.

Capital Improvement Plan (CIP) – a five-year plan of proposed capital expenditures for long-term improvements to the City's facilities including water, sewer, transit and schools; identifies each project and source of funding.

Cityscene – A monthly report to the Citizens of the City of Fairfax written and mailed by the City Community Relations Department; the *Cityscene* includes articles of interest, notices of public meetings, minutes of public meetings and other information pertinent to the citizens of the City of Fairfax.

Coefficient of Dispersion – represents the mean percentage deviation from a median.

Comprehensive Annual Financial Report (CAFR) – the annual report that represents a locality's financial activities and contains the independent auditor's reports on compliance with laws, regulations and internal controls over financial reporting based on an audit of financial statements performed in accordance with "Government Auditing Standards."

COG – Washington metropolitan council of governments – an independent, nonprofit association of 17 member governments located in the Washington metropolitan region.

Constitutional Officers – officials elected to four-year terms of office who are authorized by the Constitution of Virginia to head City departments, the Treasurer and Commissioner of Revenue in the City.

Consumer Price Index (CPI) – a measure, calculated by the United States Department of Labor, commonly used to indicate the rate of inflation.

Contingency – a budgetary reserve set aside for emergencies or unforeseen expenditures for which no other budget exists.

CPR – cardio-pulmonary resuscitation.

CriS Kiosk – An interactive multimedia kiosk including information about government services and regional attractions. The kiosk, named CRIS (Community Resident Information System), is a cooperative project with Fairfax County. Kiosks are located in area government offices, shopping malls and libraries.

CSA – comprehensive services act.

CUE Bus – City/University/Energy Saver bus system – provides bus service to City residents and George Mason University (GMU) students.

CY – Calendar year.

Debt Per Capita – total outstanding debt divided by the population of the City.

Debt Ratio – a measure used that determines the annual debt service or outstanding debt as a percentage of some other item which is generally an indication of the ability of the City to repay the debt; examples include annual debt service as a percentage of total annual expenditures and total outstanding debt as a percentage of total assessed value.

Debt Service – the payment of interest and principal to holders of the City's debt instruments.

E-911 Tax – this is a tax on telephone usage to pay for fire and police emergency dispatch operations.

Economic Development Authority (EDA) – responsible for encouraging industrial and commercial development in the City.

EMS – emergency medical services.

EMT – emergency medical technician.

Encumbrance – a reservation of funds that represents a legal commitment, often established through contract, to pay for future goods or services.

Enterprise Funds – account for the financing of services to the general public whereby all or most of the operating expenses involved are recorded in the form of charges to users of such services. The enterprise funds consist of the Sewer Utility Fund, the Water Utility Fund and the Transit Fund (although transit is not formally recognized as an enterprise fund).

Expenditure – actual outlay of monies for goods or services.

Expenses – expenditures and encumbrances for goods and services.

Fair Market Sales – defined as an “arm's length” transaction where there is a willing buyer and a willing seller, neither of which is under pressure to sell or buy. This excludes transfers such as sales within a family, foreclosures, or sales to a governmental unit.

Fastran – name of paratransit service.

FHS – Fairfax High School.

Fringe Benefits – the employer contributions paid by the City as part of the conditions of employment. Examples include health insurance, state public employees retirement system and the City retirement system.

Full-Time Equivalent (FTE) – a measure for determining personnel staffing, computed by equating 2,080 hours of work per year (2,912 for firefighters) with one full-time equivalent position.

Fund – an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives.

Fund Balance – the excess of an entity's assets over its liabilities also known as excess revenues over expenditures. A negative fund balance is sometimes called a deficit.

GASB – Governmental Accounting Standards Board – an organization that provides the ultimate authoritative accounting and financial reporting standards for state and local governments.

General Obligation Bond – a bond for which the full faith and credit of the City is pledged for payment.

Historic Fairfax City, Inc. (HFCI) -- a nonprofit in the City whose purpose is to promote and preserve historic properties in the City of Fairfax. They also promote public awareness and appreciation of the history of the City of Fairfax.

Industrial Development Authority (IDA) – responsible for encouraging industrial and commercial development in the City.

Infrastructure – public systems and facilities, including water and sewer systems, roads, bridges, public transportation systems, schools and other utility systems.

Internal Service Charges – charges to City departments for assigned vehicle repairs and maintenance provided by the fleet maintenance division.

IT – information technology.

Median Household Income – median denotes the middle value in a set of values, in this case, household income.

MGD – million gallons per day.

MIS Services – management information services generally referring to information technology products and services.

MISS UTILITY – an organization that tracks utilities so that, in accordance with the Underground Utility Protection Law, anybody who wants to dig in the ground for any purpose can determine where utilities are located.

Modified Accrual Basis of Accounting – basis of accounting according to which revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which are recognized when due.

Non-Departmental Accounts – accounts used to record expenditures that cannot or have not been allocated to individual departments.

NVTC – Northern Virginia Transportation Commission.

Object – as used in expenditure classification, this term applies to the type of item purchased or the service obtained (as distinguished from the results obtained from expenditures). Examples are personnel services, contractual services and materials and supplies.

Old Town Service District – the area defined as Old Town Fairfax; the service district was established to provide revenues, through a special assessment, to help fund costs related to the Old Town Fairfax development projects.

Performance Measure – an indicator of the attainment of an objective; it is a specific quantitative measure of work performed or services provided within an activity or program, or it may be a quantitative measure of results obtained through a program or activity.

Personal Property Tax (PP) – a City tax levied on motor vehicles and boats based on published listings of values, and on machinery and tools based on a percentage of cost.

Proposed Budget – the operating and capital budgets submitted to the City Council by the City Manager.

Proprietary Fund – a fund that accounts for operations that are financed in a manner similar to private business enterprise; consists of enterprise funds.

Public Service Corporation (PSC) – an entity defined by the Commonwealth of Virginia as providing utilities to residents and businesses; includes power companies, phone companies, gas companies, and other similar type organizations.

Real Estate Tax (R/E) – a tax levied by the City Council on real property in the City of Fairfax; real property is defined as land and improvements on the land (buildings).

Reserve – an account used to indicate that a portion of fund equity is legally restricted.

Residential Renaissance Program – a set of programs run by the Renaissance Housing Corporation, a non-profit organization in the City, to assist homeowners in improving and upgrading their houses; currently taking applications for a residential home improvement loan whereby the Renaissance Housing Corporation will buy down the first two years of interest on home improvement loans for those meeting established criteria.

Revenue – the income received by the City in support of a program of services to the community; includes such items as property taxes, fees, user charges, grants, fines and forfeitures, interest income and miscellaneous revenue.

Revenue Estimate – a formal estimate of how much revenue will be earned from a specific revenue source for some future period – typically a future fiscal year.

ROW – right-of-way.

Salaries – the amounts paid for personal services rendered by employees in accordance with rates, hours, terms and conditions authorized by law or stated in employment contracts. This category also includes overtime and temporary help.

SUP – special use permit as in zoning.

Supplies and Material – the expenditure classification used in the budget to cover office and operating supplies, construction materials, chemicals, fuels, and repair parts.

Tax Rate – the amount of tax levied for each \$100 of assessed value.

TEIF Grant – Transportation Efficiency and Improvement Fund.

Transient Occupancy or Lodging Tax – tax on stays at hotels and motels of less than 30 days duration.

UCR based reporting – Uniform Crime Reporting; move is toward incident based reporting (IBR).

User Fees – the payment of a fee for direct receipt of a public service by the person benefiting from the service.

VML – Virginia Municipal League – a nonprofit association of City, town and county officials that provides member services to Virginia local governments.

WMATA – Washington Metropolitan Area Transit Authority, the regional agency that operates the METRO bus and subway systems expenditures.